

Official Board Packet



Texas State Affordable Housing Corporation

Board Meeting  
To be held at the offices of  
Texas State Affordable Housing Corporation  
1005 Congress Avenue – Suite B-10 Conference Room  
Austin Texas 78701

Friday, September 14, 2007  
11:00 a.m.



**BOARD MEETING**  
**TEXAS STATE AFFORDABLE HOUSING CORPORATION**  
To be held at the offices of  
**Texas State Affordable Housing Corporation**  
**1005 Congress Avenue – Suite B-10 Conference Room**  
**Austin, Texas 78701**  
**September 14, 2007 at 11:00 am**

**AGENDA**

**CALL TO ORDER, ROLL CALL**  
**CERTIFICATION OF QUORUM**  
Chair

Jerry Romero

The Board of Directors of Texas State Affordable Housing Corporation will meet to consider and possibly act on the following:

**PUBLIC COMMENT**

**REPORTS**

- |  |                    |
|--|--------------------|
| ♦ Audit Committee Report                                 | Thomas Leeper      |
| ♦ President's Report                                     | David Long         |
| ♦ Executive Vice President's Report                      | Katherine Closmann |
| ♦ Single Family Lending Report                           | Paige McGilloway   |
| ♦ Multifamily Lending Report                             | David Danenfelzer  |
| ♦ Marketing and Development Report                       | Janie Taylor       |
| ♦ Financial Report                                       | Melinda Smith      |
| ♦ Presentation of Financial Statements and Budget Report |                    |

**ACTION ITEMS IN OPEN MEETING**

- |              |  |
|--------------|--|
| <b>Tab 1</b> | Presentation, Discussion and Possible Approval of Minutes of the Board Meeting held on August 9, 2007.   |
| <b>Tab 2</b> | Presentation, Discussion and Possible Approval of a Resolution Authorizing the Issuance, Sale and Delivery of Single Family Mortgage Revenue Bonds, Series 2007D; Authorizing a Trust Indenture, an Origination, Sale and Servicing Agreement, Bond Purchase Agreement and Continuing Disclosure Agreement, Making Certain Findings and Determinations; Authorizing the Execution of Documents and Instruments Necessary or Convenient to Carry Out a 2007D Texas State Affordable Housing Corporation Single Family Program; and Containing Other Matters Incident and Related Thereto. |
| <b>Tab 3</b> | Presentation, Discussion and Possible Approval of a Resolution to Amend Access to the Corporation's Program funding for the Single Family Affordable Homeownership Program for Texas and the Single Family Interim Construction Loan Program to include the Corporation's program known as the Multifamily Direct Lending Program.   |
| <b>Tab 4</b> | Presentation, Discussion and Possible Approval of the Corporation's Risk Management Policy.  |
| <b>Tab 5</b> | Presentation, Discussion and Possible Approval of Fiscal Year 2008 Operating Budget.   |
| <b>Tab 6</b> | Presentation, Discussion and Possible Approval of Selection of Independent Financial Auditors.   |
| <b>Tab 7</b> | Presentation, Discussion and Possible Approval of Changes to Audit Committee Guidelines.   |
| <b>Tab 8</b> | Presentation, Discussion and Possible Approval of Policies & Procedures related to Internal Accounting Controls.   |

**CLOSED MEETING**

Consultation with legal counsel on legal matters – Texas Government Code § 551.071  
Deliberation regarding purchase, exchange, lease, or value of real property – Texas Government Code § 551.072  
Deliberation regarding prospective gift or donation to the state or Texas State Affordable Housing Corporation – Texas Government Code § 551.073  
Personnel Matters – Texas Government Code § 551.074  
Implementation of security personnel or devices – Texas Government Code § 551.076  
Other matters authorized under the Texas Government Code

**OPEN MEETING**



Action in Open Meeting on Items Discussed in Closed Meeting.

## **ADJOURN**

*Individuals who require auxiliary aids or services for this meeting should contact Laura Ross, ADA Responsible Employee, at 512-477-3555, x 400 or Relay Texas at 1-800-735-2989 at least two days before the meeting so that the appropriate arrangements can be made.*

*Texas State Affordable Housing Corporation reserves the right to recess this meeting (without adjourning) and convene at a later stated time, if and to the extent allowed by law. If Texas State Affordable Housing Corporation adjourns this meeting and reconvenes at a later time, the later meeting will be held in the same location as this meeting. Texas State Affordable Housing Corporation also reserves the right to proceed into a closed meeting during the meeting in accordance with the Open Meetings Act, Chapter 551 of the Texas Government Code. If permitted by the Open Meetings Act, Chapter 551 of the Texas Government Code, any item on this Agenda to be discussed in open meeting may also be discussed by the Board (and any other authorized persons) in closed meeting.*



# **Audit Committee Report**

## Discussion



# **President's Report**

Discussion





Wells Fargo Bank, N.A.  
Corporate Trust Services  
Special Accounts Group  
MAC MBS  
625 Marquette Avenue  
Minneapolis, MN 55479

RECEIVED

AUG 28 2007

TEXAS STATE AFFORDABLE  
HOUSING CORPORATION

August 22, 2007

**NOTICE OF PROTECTIVE ADVANCE  
UNDER LOAN AGREEMENT**

**\$69,230,000 Texas State Affordable Housing Corporation  
Multifamily Housing Revenue Bonds  
(MBIA Insured – NHT/GTEX Project Portfolio), Series 2001A**

<u>CUSIPs<sup>1</sup></u>	<u>Interest Rate</u>	<u>Maturity Date</u>
88271FAU7	4.10%	10/1/2008
88271FAM5	4.60%	10/1/2011
88271FAN3	5.20%	10/1/2021
88271FAP8	5.30%	10/1/2031

**\$7,435,000 Texas State Affordable Housing Corporation  
Multifamily Housing Revenue Bonds  
(NHT/GTEX Project Portfolio), Junior Series 2001B**

<u>CUSIPs<sup>1</sup></u>	<u>Interest Rate</u>	<u>Maturity Date</u>
88271FAR4	6.75%	10/1/2016
88271FAS2	7.25%	10/1/2031

**\$3,165,000 Texas State Affordable Housing Corporation  
Multifamily Housing Revenue Bonds  
(NHT/GTEX Project Portfolio), First Subordinate Series 2001C**

<u>CUSIPs<sup>1</sup></u>	<u>Interest Rate</u>	<u>Maturity Date</u>
88271FAT0	10.00%	10/1/2031

<sup>1</sup> The CUSIP numbers are used herein for the convenience of the Holders only. No representation is made as to the correctness or accuracy of the foregoing CUSIP numbers or the CUSIP numbers printed on the Bonds. All capitalized terms not defined herein have the meanings given to them in the Indenture.



Texas State Affordable Housing Corporation Multifamily Housing Revenue Bonds  
(MBIA Insured - NHT/GTEX Project Portfolio), Series 2001A  
(NHT/GTEX Project Portfolio), Junior Series 2001B  
(NHT/GTEX Project Portfolio), First Subordinate Series 2001C  
(NHT/GTEX Project Portfolio), Second Subordinate Series 2001D  
August 22, 2007  
Page 2

**\$2,605,000 Texas State Affordable Housing Corporation  
Multifamily Housing Revenue Bonds  
(NHT/GTEX Project Portfolio), Second Subordinate Series 2001D**

<u>CUSIPs<sup>1</sup></u>	<u>Interest Rate</u>	<u>Maturity Date</u>
88271FAV5	12.00%	10/1/2031

THIS NOTICE CONTAINS IMPORTANT INFORMATION THAT IS OF INTEREST TO THE REGISTERED AND BENEFICIAL OWNERS OF THE BONDS. IF YOU RECEIVE THIS NOTICE AND ARE ACTING FOR A BENEFICIAL OWNER OF THE BONDS, PLEASE SEND THIS NOTICE TO THE BENEFICIAL OWNER(S) IMMEDIATELY.

Wells Fargo Bank, National Association, formerly known as Wells Fargo Bank Texas, N.A., serves as the Trustee (the "Trustee") under the Trust Indenture dated as of October 1, 2001 (the "Indenture"), under which The Texas State Affordable Housing Corporation (the "Issuer") issued: (i) \$69,230,000 in principal amount of its Multifamily Housing Revenue Bonds (MBIA Insured - NHT/GTEX Project Portfolio), Series 2001A ("Series A Bonds"), (ii) \$7,435,000 in principal amount of its Multifamily Housing Revenue Bonds (NHT/GTEX Project Portfolio), Junior Series 2001B ("Series B Bonds"), (iii) \$3,165,000 in principal amount of its Multifamily Housing Revenue Bonds (NHT/GTEX Project Portfolio), First Subordinate Series 2001C ("Series C Bonds"), and (iv) \$2,605,000 in principal amount of its Multifamily Housing Revenue Bonds (NHT/GTEX Project Portfolio), Second Subordinate Series 2001D ("Series D Bonds"). (Collectively, the Series A Bonds, the Series B Bonds, the Series C Bonds, and the Series D Bonds are referred to herein as the "Bonds.")

The Issuer loaned the proceeds of the Bonds to NHT/GTEX, LLC, a Texas limited liability company (the "Borrower"), to finance the Borrower's acquisition and renovation of the following seven properties which, at all times, are to be occupied in part by persons of low, very low, and extremely low income (the "Properties"):

- (i) Ashley Park Townhomes, a 140-unit multifamily residential rental housing development located at 2253 Ashley Park Drive, Plano, Collin County, Texas;
- (ii) Champions Green Apartments, a 192-unit multifamily residential rental housing development located at 14141 Champions Drive, Houston, Harris County, Texas;



- (iii) **Chelsea Court Apartments I & II**, a 760-unit multifamily residential rental housing development located at 13101 Briar Forest Drive and 1620 Enclave Parkway, Houston, Harris County, Texas;
- (iv) **Kressington Place Apartments**, a 136-unit multifamily residential rental housing development located at 7203 Oakwood Glen, Houston, Harris County, Texas;
- (v) **Riverwalk Apartments**, a 176-unit multifamily residential rental housing development located at 12920 Audelia Road, Dallas, Dallas County, Texas;
- (vi) **Timberlodge Apartments**, a 216-unit multifamily residential rental housing development located at 11600 Audelia Road, Dallas, Dallas County, Texas; and
- (vii) **Victoria Place Apartments**, a 144-unit multifamily residential rental housing development located at 8740 Westheimer Road, Houston, Harris County, Texas.

Under the terms of a Loan Agreement dated as of October 1, 2001 ("Loan Agreement"), the Borrower is obligated to repay all amounts due and owing under the Bonds. Repayment of the Series A Bonds is secured by a first-priority First Deed of Trust, Assignment of Rents and Leases, and Security Agreement dated October 1, 2001 ("First Deed of Trust") against the Properties. Repayment of the Series B Bonds is secured by a second-priority Second Deed of Trust, Assignment of Rents and Leases, and Security Agreement dated October 1, 2001 ("Second Deed of Trust") against the Properties. Repayment of the Series C Bonds is secured by a third-priority Third Deed of Trust, Assignment of Rents and Leases, and Security Agreement dated October 1, 2001 ("Third Deed of Trust") against the Properties. Repayment of the Series D Bonds is secured by a fourth-priority Fourth Deed of Trust, Assignment of Rents and Leases, and Security Agreement dated October 1, 2001 ("Fourth Deed of Trust") against the Properties.

#### **THE BOND INSURER'S ADVANCE OF FUNDS TO THE BORROWER TO MAINTAIN THE PROPERTIES**

Paragraph 3.4(2) of the Loan Agreement provides:

In the event that the Borrower shall fail to place, keep and maintain the Projects, or cause the Projects to be placed, kept and maintained, in good condition, repair and working order so that the operations of the Borrower, any tenant of the Projects, or any other Person, are materially adversely affected, the Issuer, the Bond Insurer, or the Trustee may (but shall be



under no obligation to) make the required repairs or replacements. The Borrower shall promptly reimburse the Person making any such payment for the full amount so advanced, together with interest thereon from the date of payment thereon, at a rate per annum equal to the maximum rate of interest allowable under applicable State law.

On August 1, 2006, the Bond Insurer notified the Trustee that it intends to make advances to the Borrower for the purpose of making funds available to protect, maintain and rehabilitate the Properties pursuant to Section 3.4(2) of the Loan Agreement and Section 8.11 of the Indenture. Under the terms of a Protective Advance Agreement dated August 1, 2006 ("Protective Advance Agreement"), the Protective Advance Lender shall make periodic advances to the Trustee as approved by and on behalf of the Bond Insurer, and the Trustee shall forward the advanced funds to the applicable property managers for each of the Properties. Each advance shall bear interest at the rate of 18% per annum (or such lesser rate as is the maximum permitted under applicable Texas law) and shall be calculated on the basis of a 360-day year of 30-day months based on the actual days any Advance is outstanding. The Protective Advance Agreement further provides that the repayment of any advances shall be subordinate to the payment of operating expenses for the Properties and subordinate to the payment of principal and interest owed to holders of the Series A Bonds. The agreement further provides that the aggregate amount of advances requested shall not exceed \$4,000,000 unless the Protective Advance Lender and the Bond Insurer otherwise agree in writing.

On August 22, 2007, the Trustee received an advance in the amount of \$234,885.73 from the Protective Advance Lender, which amount was applied to the Properties as follows:

Property	Amount
Ashley Park	\$7,353.00
Riverwalk	\$61,828.00
Timberlodge	\$56,964.60
Kressington Place	\$7,005.94
Victoria Place	\$16,820.65
Champions Green	\$72,746.29
Chelsea Court I & II	\$12,167.25
<b>Total</b>	<b>\$234,885.73</b>



Texas State Affordable Housing Corporation Multifamily Housing Revenue Bonds  
(MBIA Insured – NHT/GTEX Project Portfolio), Series 2001A  
(NHT/GTEX Project Portfolio), Junior Series 2001B  
(NHT/GTEX Project Portfolio), First Subordinate Series 2001C  
(NHT/GTEX Project Portfolio), Second Subordinate Series 2001D  
August 22, 2007  
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As of today's date, the Trustee has received the following advances from the Protective Advance Lender for the Properties:

Advance Date	# of days	Principal	Rate	Interest
9/25/2006	327	\$218,328.10	18.00%	\$35,696.64
10/30/2006	292	\$408,708.75	18.00%	\$59,671.48
1/12/2007	220	\$499,894.66	18.00%	\$54,988.41
1/31/2007	202	\$473,470.24	18.00%	\$47,820.49
3/22/2007	150	\$423,255.05	18.00%	\$31,744.13
5/15/2007	97	\$253,241.20	18.00%	\$12,282.20
7/12/2007	40	\$524,922.94	18.00%	\$10,498.46
8/22/2007		\$234,885.73	18.00%	
Total:		\$3,036,706.67		\$252,701.81

If you have any questions about this notice, or if you would like to obtain additional information, you may contact the Trustee at the following address:

Wells Fargo Bank, National Association  
Attention: Gavin Wilkinson  
MAC N9311-115  
625 Marquette Avenue  
Minneapolis, MN 55402  
Phone: (612) 667-3777  
Fax: (612) 667-5047  
E-mail: [Gavin.Wilkinson@wellsfargo.com](mailto:Gavin.Wilkinson@wellsfargo.com)

Please note that Wells Fargo may conclude that a specific response to particular inquiries from individual Holders is not consistent with equal and full dissemination of significant information to all Holders. Holders should not rely on Wells Fargo as their sole source of information. Wells Fargo makes no recommendations and gives no investment or legal advice to the above matters or as to the Bonds generally.

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as Trustee

By: Gavin Wilkinson  
Gavin S. Wilkinson  
Vice President









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## **NOTICE OF EVENTS OF DEFAULT**

August 2, 2007

Agape Ashton/Woodstock, Inc.  
7334 Blanco Road, Suite 200  
San Antonio, Texas 78216  
Attn: Mr. David Starr, President

**Via US Mail & DDL Overnight Mail**

**Re: Texas State Affordable Housing Corporation Multifamily Housing Revenue Bonds - Ashton Place and Woodstock Apartments Series 2001A, Series 2001C and Series 2001D (collectively, the "Bonds")**

Dear Mr. Starr:

As you know, the Bank of New York Trust Company, N.A. (the "Trustee"), successor in interest to J.P. Morgan Trust Company, National Association, successor to Bank One, NA, serves as indenture trustee for the above-referenced Bonds pursuant to that certain Trust Indenture (the "Indenture") dated as of July 1, 2001 by and between the Texas State Affordable Housing Corporation (the "Issuer") and the Trustee. Also as of July 1, 2001, the Issuer and Agape Ashton/Woodstock, Inc. (the "Borrower") entered into that certain Loan Agreement (the "Loan Agreement") pursuant to which the Issuer loaned the proceeds of the Bonds to the Borrower for the purposes described therein. Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the Indenture and the Loan Agreement, as applicable.

The Trustee has previously provided to you notices of the occurrence and continuation of Events of Default including, without limitation, notices dated August 28, 2006, October 26, 2006, December 22, 2006 and July 3, 2007 (the "Notices"). Many of the Events of Default described in the Notices have not been remedied. In addition, certain events have occurred subsequent to the Notices that constitute additional Events of Default under the Loan Agreement and the Indenture. Those Events of Default are set forth below.

### **Events of Default**

**The Trustee has previously notified the Borrower of the occurrence of Events of Default** due to the Borrower's failure to deposit when due Gross Revenues as required by the Loan Agreement. Pursuant to Loan Agreement Section 3.2(b), the Borrower is required to deposit with the Trustee all Gross Revenues of the Projects, which are then to be used to pay Basic Loan Payments as described in Loan Agreement Section 3.2(b)(i) and Additional Loan Payments as described in Loan Agreement Section 3.2(b)(ii). Failure to deposit the Gross Revenues with the Trustee constitutes an Event of Default pursuant to Section 5.1(a) of the Loan Agreement and Section 8.1(d) of the Indenture.

As the Trustee set out in its December 22, 2006 Notice, and again in its July 3, 2007 Notice, the Gross Revenues that the Trustee receives each month are deposited into the Revenue Fund and, pursuant to Section 4.4(b) of the Indenture, those funds are disbursed on or before the 20th day of each calendar month in the order of priority prescribed by the Indenture. The Trustee has worked with the Borrower's management company, United Apartment Group ("UAG"), to ensure that Gross Revenues are deposited with the Trustee on a weekly basis, in compliance with Section 3.2(b) of the Loan Agreement. The Trustee agreed that, for a period at the beginning of 2007, when UAG required funds for Operating Expenses such as payroll or utilities, UAG could request the required amount on or before the 20th of each month from the Trustee and, depending on availability of funds on deposit in the Revenue Fund, the





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Trustee would make the funds on deposit immediately available. This procedure was put into place at the request of the Borrower and UAG to allow the Projects to receive their Operating Expenses earlier than the 20<sup>th</sup> in the month, with the understanding that after January 2007, the Trustee, the Borrower and UAG would agree upon a funding date before the 20<sup>th</sup> of each month (such as the 10<sup>th</sup> or the 15<sup>th</sup>) for the flow of Operating Expenses. The Trustee has been flexible while working through this process with the Borrower and UAG, but a monthly funding date must now be established and implemented.

The Trustee hereby notifies the Borrower of an additional occurrence of an Event of Default as to the Series A Bonds pursuant to Section 8.1(d) of the Indenture and Section 5.1(a) of the Loan Agreement due to the Borrower's failure to meet the requirements of Section 3.2(b)(i) with respect to the August 1, 2007 payment of principal and interest on the Series A Bonds. Due to insufficient funds in the Senior Bond Fund, it was necessary for the Trustee to utilize funds from the Senior Debt Service Reserve Fund in the amount of \$192,857.87 to supplement the principal and interest payments due August 1, 2007 to the holders of the Series A Bonds. As a result of the use of funds from the Senior Debt Service Reserve Fund, there is a shortfall in the Senior Debt Service Reserve Fund in the amount of \$467,110.87. As you have previously been notified, the Trustee has been directed to permit the Borrower to use up to \$55,000 from the Senior Debt Service Reserve Fund for certain refurbishment, repair and rebuilding at the Woodstock Apartments. Use of these funds will create an additional shortfall in the Senior Debt Service Reserve Fund.

As the Trustee has previously discussed with you, and as set forth in the Notices, the Borrower is required to remedy these shortfalls by remitting to the Trustee Additional Loan Payments sufficient to cure these shortfalls, pursuant to Section 3.2(b)(ii) and 3.2(b)(iii) of the Loan Agreement.

The Trustee hereby notifies the Borrower of the occurrence of an Event of Default as to each of the Series C Bonds and Series D Bonds pursuant to Sections 8.1(b) and 8.1(d) of the Indenture and Sections 5.1(a) and 5.1(e) of the Loan Agreement due to the failure of the Borrower to remit sufficient funds pursuant to Section 3.2(b)(i) of the Loan Agreement such that the installment of interest due on August 1, 2007 was not paid to the holders of the Series C Bonds and the Series D Bonds. Pursuant to Section 8.1 of the Indenture, this Event of Default as to the Series C Bonds and the Series D Bonds does not constitute an Event of Default as to the Senior Bonds, and this Event of Default as to the Series D Bonds does not constitute an Event of Default as to the Series C Bonds. Pursuant to Section 3.2(b)(iii), the Borrower is required to cause the deficient amounts to be paid to the Trustee, with interest, from the date of default (August 1, 2007) until the date so paid, at the Default Rate.

In addition, the Trustee currently holds on \$4.36 in the Series C Bond Fund and does not hold any funds in the Series D Bond Fund, and there is a shortfall in the Series C Debt Service Reserve Fund in the amount of \$69,433.28 and a shortfall in the Series D Operating Reserve Fund in the amount of \$103,999.06. As with the shortfalls in the Senior Debt Service Reserve Fund discussed above, the Borrower is required to remedy these shortfalls by remitting to the Trustee Additional Loan Payments sufficient to cure these shortfalls pursuant to Section 3.2(a)(i) and 3.2(b)(iii) of the Loan Agreement.

The Trustee previously notified the Borrower of an Event of Default due to the Borrower's failure to satisfy the requirements relating to the performance of a calculation of rebate amount and related steps concerning arbitrage and rebate required pursuant to the terms of Section 2.3(v)(x) of the Loan Agreement and Section 4.7 of the Indenture. That failure has now become an Event of Default under Section 5.1(b) of the Loan Agreement and Section 8.1(d) of the Indenture due to the Borrower's failure to remedy the failure within 30 days of the Trustee's July 3, 2007 Notice.





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**The Trustee hereby demands that the Borrower remedy these Events of Defaults pursuant to the requirements of the Loan Agreement and other applicable documents.**

**The Trustee previously notified the Borrower of an Event of Default** due to its failure to meet the Debt Service Coverage Ratio requirements described in Section 2.2(j) of the Loan Agreement for Fiscal Years 2003, 2004 and 2005. As a result of these Events of Default, the Trustee requested the Borrower to submit a consultant's report within 30 days of the Default Notice. The Borrower has not submitted a consultant's report to the Trustee as of the date hereof, and this Event of Default is continuing. The Trustee reiterates its request for the consultant's report.

Also, pursuant to Section 4.11(c) of the Loan Agreement, if the Borrower is non-compliant with the Debt Service Coverage Ratios of Section 2.2(jj) of the Loan Agreement as indicated above, then the Borrower must deliver quarterly coverage certificates on each March 15, June 15, September 15, and December 15 until in compliance for a complete Fiscal Year. In addition, the Borrower is required to deliver, within 90 days of the delivery of the initial certificate showing that the required Debt Service Coverage Ratios have not been achieved, a management plan approved by the Board of Trustees of the Borrower evaluating the reasons the coverage ratios have not been met, suggesting a reasonable plan of action for remedying or ameliorating the identified problems or circumstances, and setting forth a timetable for the plan of action. The Trustee has not received these coverage certificates and management plan, and requests that the Borrower provide the coverage certificates and plan as required.

**The Trustee previously notified the Borrower of Events of Default** due to the Borrower's failure to provide the quarterly unaudited financial statements for the Borrower's Fiscal Quarters ending March, June, September and December 2006. The Trustee acknowledges receipt of the annual unaudited financial statement through December 31, 2006.

**The Trustee also previously notified the Borrower of Events of Default** due to the Borrower's failure to remit when due to the Trustee the Notice and Certificates required under Section 4.9(a) of the Loan Agreement, which requires the Borrower, within 120 days of the end of each Fiscal Year, or by each April 30, to provide a certificate of an Authorized Representative of the Borrower that all required payments have been made (a "No Event of Default Certificate"), or, if such an event exists, describing the nature of such event and what steps are being taken to remedy such event. The Trustee reiterates its requests for these documents.

#### **Additional Defaults and Failures**

**The Trustee hereby notifies the Borrower that the Borrower has failed** to remit when due additional reports and documents required under Section 4.11 of the Loan Agreement. Pursuant to Section 4.11(b) of the Loan Agreement, the Borrower is required to remit, within 30 days after the end of each fiscal quarter, a copy of its unaudited quarterly financial statements. The Trustee has not yet received, and hereby requests, the quarterly unaudited financial statements for the Borrower's Fiscal Quarter ending June 30, 2007.

**The Trustee hereby notifies the Borrower that the Borrower has failed** to remit when due the annual certificate of Insurance Consultant stating that all policies required by the Loan Agreement to be in force and effect, are in effect, and that such policies and the insurance evidenced thereby comply with the requirements of Section 4.8(a) and (b).

**The Trustee hereby demands the Borrower remedy these additional defaults and failures by remitting the above required reports and documents as required within 30 days of the date of this**





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**notice. Pursuant to Section 3.1(b) of the Loan Agreement and Section 3.1(d) of the Indenture, continuation of the failure to remedy such defaults within 30 days after the date of this notice will constitute Events of Default.**

The Trustee further notifies the Borrower that the Borrower failed to remit to the Trustee funds sufficient for the Trustee to make the principal payment due on February 1, 2007 to the holders of both the Series C Bonds and the Series D Bonds. Pursuant to Section 3.3(c) of the Indenture, the amount of the unpaid principal payments on the Series C Bonds from August 1, 2005 and the Series D Bonds from February 1, 2005 (including unpaid interest on these amounts) will be added to the August 1, 2007 sinking fund payments for the Series C Bonds and the Series D Bonds, respectively.

#### **Summary of Required Documents**

In summary, documents as required under the Loan Agreement currently due are as indicated below:

<b><u>Item</u></b>	<b><u>Due Date</u></b>	<b><u>Section</u></b>
Annual Audited Financial & DS Coverage Ratio - Fiscal Year 2006	4/30/07	4.11(b) & 2.2(jj)
Unaudited quarterly financial statements for 2 <sup>nd</sup> quarter 2007	7/30/07	4.11(b)
No Event of Default Certificates	4/30/06 4/30/07	4.9(a)
Rebate Calculations	8/24/06	2.3(b)(x)
Insurance Consultant Certification	4/30/07	4.8
Consultant Report	since 2003	2.2(jj)
Quarterly Debt Service Coverage Ratio Certificates & Management Plan	Each Quarter & Immediately	4.11(c)

#### **Remedies and Trustee's Fees and Expenses**

The failure to list other failures, defaults or Events of Defaults that may currently exist or may arise hereafter does not constitute, and shall not be deemed, a waiver of any such failures, defaults or Events of Default by the Trustee or the Bondholders. The Trustee hereby reserves all of its rights, including the right to take whatever remedial actions it deems necessary at any time after the occurrence and during the continuation of an Event of Default. The failure to take immediate action does not constitute, and shall not be deemed, a waiver of the Trustee's rights or remedies. The Trustee will be charging extraordinary fees and expenses to this matter, including, without limitation, outside counsel fees and expenses. The Trustee reserves the right to reimburse such fees and expenses from available trust assets pursuant to its lien rights in the event the Borrower fails to pay the fees and expenses when presented with an invoice.

Should you have any questions regarding the contents of this notice, please contact the undersigned at (614) 775-5279.

Very truly yours,  
The Bank of New York Trust Company, N.A.

Donna J. Parisi  
Vice President

cc: Texas State Affordable Housing Corporation  
1005 Congress Avenue, Suite 500  
Austin, Texas 78701  
Attn: President

Via US Mail & DHL Overnight Mail

11/06/2006 2:11





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Moody's Investors Service, Inc.  
99 Church Street  
New York, New York 10007-2796  
Attn: Public Finance Affordable Housing

Via US Mail & DHL Overnight Mail

Victoria H. Powers, Esq. (Trustee's counsel)  
Schottenstein Zox & Dunn Co., L.P.A.  
250 West Street  
Columbus, Ohio 43216-5020

Via Fax 614-222-3478

James Henry  
The Bank of New York Trust Company, N.A.

Via Fax 213-216-4157



**Texas State Affordable Housing Corporation's  
Fire Fighter and Law Enforcement or Security Officer Home Loan Program Series 2007C  
As of April 9, 2007 through August 5, 2007**

Month	# of Loans	% of Total Loans	Total Originated
Apr-07	28	14%	\$ 3,379,219
May-07	44	22%	\$ 5,243,895
Jun-07	53	27%	\$ 6,435,572
Jul-07	55	28%	\$ 6,187,569
Aug-07	18	9%	\$ 2,189,918
<b>Totals</b>	<b>198</b>	<b>100%</b>	<b>\$ 23,436,173</b>

Lender	Originated	# of Loans	Total %
Countrywide Home Loans, Inc.	\$3,205,658.00	31	16%
WR Starkey Mortgage	\$2,053,602.00	17	9%
CTX Mortgage Company, LLC	\$1,504,381.00	10	5%
Market Street Mortgage Corp.	\$1,492,354.00	12	6%
JP Morgan Chase Bank, NA	\$1,416,213.00	12	6%
Cornerstone Mortgage Company	\$1,309,028.00	10	5%
R. H. Lending, Inc	\$1,199,327.00	9	5%
Wachovia Mortgage Corporation	\$998,412.00	9	5%
Rocky Mountain Mortgage Co.	\$820,400.00	8	4%
Hometrust Mortgage Company	\$773,580.00	7	4%
Home Loan Corporation	\$762,344.00	6	3%
Countrywide - Wholesale	\$743,141.00	5	3%
Hammersmith Financial, L.P.	\$644,800.00	5	3%
Universal American Mortgage Co	\$555,341.00	4	2%
Wells Fargo Home Mtg-	\$544,695.00	5	3%
Castle & Cooke Mortgage, LLC	\$504,534.00	3	2%
City Bank	\$469,146.00	3	2%
Texas State Bank	\$468,551.00	5	3%
PrimeLending, A PlainsCptl Co.	\$419,736.00	3	2%
Service First Mortgage	\$409,905.00	3	2%
Weststar Mortgage Corp. Inc.	\$387,556.00	3	2%
Houstonian Mortgage Group Inc.	\$381,005.00	4	2%
Maverick Residential Mortgage	\$338,312.00	5	3%
Willow Bend Mortgage	\$327,192.00	2	1%
Colonial Savings, FA	\$292,125.00	3	2%
Prime West Mortgage Corp.	\$194,679.00	2	1%
Ryland Mortgage Company	\$177,675.00	1	1%
American Bank - TX	\$168,609.00	2	1%
National City Mortgage	\$157,922.00	2	1%
DHI Mortgage Company, Ltd.	\$151,660.00	1	1%
imortgage.com	\$125,060.00	1	1%
First National Bank Texas	\$96,485.00	1	1%
GMAC Mortgage, LLC	\$91,500.00	1	1%
Capital One, NA	\$89,000.00	1	1%
Republic Mortgage Home Loans	\$82,745.00	1	1%
Prado Mortgage	\$79,500.00	1	1%
<b>Total Committed</b>	<b>\$23,436,173</b>	<b>198</b>	<b>100%</b>

**Total Allocation \$23,529,000**  
**Remaining to Commit \$92,827**

At a Glance	
Total Amount Originated	\$23,436,173
Average Annual Income	\$49,949
Average Purchase Price	\$120,340
Average Loan Amount	\$118,365
Average Household Size	2
New/Existing	
New	27%
Existing	73%
Professional Breakdown	
Correctional Officer	13%
Juvenile Correctional Officer	0%
Peace Officer	31%
Fire Fighter	18%
EMS Personnel	0%
County Jailer	2%
Public Security Officer	1%
Not Specified	34%
Type of Loan	
Conventional	15%
FHA	43%
VA	5%
USDA-RD	37%
Ethnicity	
American Indian/Alaskan Native	1%
Asian or Pacific Islander	1%
Black	12%
Hispanic	15%
White	63%
Other	9%
Not Defined	0%
Top Origination Counties	# of Loans
Harris	25
El Paso	12
Bexar	12
Montgomery	11
Fort Bend	11
Tarrant	10
Travis	8
Hidalgo	8
Galveston	8
Collin	8
Brazoria	8
Dallas	7
Williamson	6
Potter	4
Nueces	3
Moore	3
Hays	3
Caldwell	3
Taylor	2
San Patricio	2
Polk	2
Medina	2
Jefferson	2
Hardin	2
Hale	2
Ellis	2
Coryell	2



**Texas State Affordable Housing Corporation's  
Professional Educators Home Loan Program Series 2007A  
As of February 22, 2007 through August 5, 2007**

Month	# of Loans	% of Total Loans	Total Originated
Feb-07	24	8%	\$ 2,878,911
Mar-07	97	33%	\$ 11,905,221
Apr-07	69	23%	\$ 8,578,176
May-07	65	22%	\$ 7,619,243
Jun-07	11	4%	\$ 1,251,735
Jul-07	16	5%	\$ 1,544,483
Aug-07	13	4%	\$ 1,385,859
<b>Totals</b>	<b>295</b>	<b>100%</b>	<b>\$ 35,163,628</b>

Lender	Originated	# of Loans	Total %
Countrywide Home Loans, Inc.	\$5,517,977.00	50	17%
Cornerstone Mortgage Company	\$4,306,977.00	32	11%
WR Starkey Mortgage	\$2,495,969.00	21	7%
Market Street Mortgage Corp.	\$2,353,956.00	19	6%
Hammersmith Financial, L.P.	\$2,301,150.00	17	6%
Rocky Mountain Mortgage Co.	\$2,260,254.00	19	6%
Wells Fargo Home Mtg-	\$2,113,040.00	18	6%
Universal American Mortgage Co	\$1,762,889.00	13	4%
Wachovia Mortgage Corporation	\$1,651,969.00	14	5%
DHI Mortgage Company, Ltd.	\$1,561,600.00	11	4%
CTX Mortgage Company, LLC	\$1,352,441.00	11	4%
Service First Mortgage	\$922,274.00	9	3%
Texas State Bank	\$825,467.00	9	3%
Countrywide - Wholesale	\$629,350.00	6	2%
Colonial Savings, FA	\$628,200.00	5	2%
Hometrust Mortgage Company	\$617,897.00	6	2%
First Continental Mortgage Ltd	\$495,751.00	4	1%
Home Loan Corporation	\$413,116.00	4	1%
American Bank - TX	\$374,170.00	4	1%
PrimeLending, A PlainsCptl Co.	\$318,350.00	3	1%
First National Bank Texas	\$312,102.00	3	1%
New South Federal Savings Bank	\$265,500.00	2	1%
Willow Bend Mortgage	\$258,400.00	2	1%
First United Bank & Trust Co.	\$229,200.00	2	1%
Standard Pacific Mortgage, Inc	\$186,000.00	1	0%
First Tennessee Bank, N.A	\$181,785.00	2	1%
R. H. Lending, Inc	\$149,900.00	1	0%
Pulaski Mortgage Company	\$136,422.00	1	0%
GMAC Mortgage, LLC	\$128,375.00	1	0%
Maverick Residential Mortgage	\$125,275.00	2	1%
Prado Mortgage	\$119,300.00	1	0%
Castle & Cooke Mortgage, LLC	\$92,270.00	1	0%
NTFN, Inc.	\$76,302.00	1	0%
<b>Total Committed</b>	<b>\$35,163,628</b>	<b>295</b>	<b>100%</b>

**Total Allocation \$35,000,000**  
**Remaining to Commit -\$163,628**

At a Glance	
Total Amount Originated	\$35,163,628
Average Annual Income	\$47,576
Average Purchase Price	\$122,321
Average Loan Amount	\$119,199
Average Household Size	2
New/Existing	
New	36%
Existing	64%
Professional Breakdown	
Teacher	95%
Teacher Aide	2%
School Counselor	1%
School Nurse	0%
School Librarian	0%
Not Specified	2%
Type of Loan	
Conventional	12%
FHA	41%
VA	2%
USDA-RD	45%
Ethnicity	
American Indian/Alaskan Native	0%
Asian or Pacific Islander	1%
Black	18%
Hispanic	21%
White	49%
Other	10%
Not Defined	0%
Top Originating Counties	
	# of Loans
Harris	75
Dallas	32
El Paso	23
Travis	18
Tarrant	18
Bexar	16
Fort Bend	13
Williamson	9
Hidalgo	9
Denton	8
Collin	8
Montgomery	5
Kaufman	4
Galveston	4
Cameron	4
Brazoria	4
Taylor	3
Hunt	3
Harrison	3
Guadalupe	3
Bell	3
Tom Green	2
Parker	2
Lubbock	2
Jefferson	2
Chambers	2



**Texas State Affordable Housing Corporation's  
Professional Educators Home Loan Program Series 2007 A-3  
As of June 20, 2007 through August 5, 2007**

Month	# of Loans	% of Total Loans	Total Originated
Jun-07	166	53%	\$ 19,905,477
Jul-07	129	41%	\$ 15,237,726
Aug-07	16	5%	\$ 1,852,118
<b>Totals</b>	<b>311</b>	<b>100%</b>	<b>\$ 36,995,321</b>

Lender	Originated	# of Loans	Total %
Countrywide Home Loans, Inc.	\$7,926,979.00	71	23%
Cornerstone Mortgage Company	\$3,071,326.00	23	7%
CTX Mortgage Company, LLC	\$2,927,105.00	22	7%
WR Starkey Mortgage	\$2,743,586.00	22	7%
Market Street Mortgage Corp.	\$2,310,669.00	18	6%
Wells Fargo Home Mtg-	\$1,952,038.00	16	5%
Rocky Mountain Mortgage Co.	\$1,399,200.00	12	4%
Wachovia Mortgage Corporation	\$1,305,049.00	11	4%
Universal American Mortgage Co	\$1,254,470.00	10	3%
DHI Mortgage Company, Ltd.	\$1,231,181.00	9	3%
Texas State Bank	\$979,762.00	11	4%
Countrywide - Wholesale	\$892,351.00	8	3%
PrimeLending, A PlainsCptl Co.	\$851,205.00	7	2%
Hammersmith Financial, L.P.	\$722,200.00	5	2%
Service First Mortgage	\$617,709.00	6	2%
Ryland Mortgage Company	\$585,405.00	4	1%
GMAC Mortgage, LLC	\$572,685.00	5	2%
Houstonian Mortgage Group Inc.	\$559,650.00	5	2%
R. H. Lending, Inc	\$538,600.00	5	2%
Standard Pacific Mortgage, Inc	\$429,752.00	3	1%
Hometrust Mortgage Company	\$412,319.00	4	1%
Prime West Mortgage Corp.	\$292,468.00	3	1%
JP Morgan Chase Bank, NA	\$278,324.00	2	1%
First Continental Mortgage Ltd	\$269,950.00	2	1%
Bankers Financial Group - TX	\$242,297.00	2	1%
NTFN, Inc.	\$242,105.00	2	1%
Colonial Savings, FA	\$239,175.00	2	1%
American Bank - TX	\$218,262.00	2	1%
Willow Bend Mortgage	\$192,850.00	2	1%
Happy State Bank	\$180,713.00	2	1%
National City Mortgage	\$176,496.00	2	1%
First National Bank Texas	\$149,553.00	2	1%
Maverick Residential Mortgage	\$133,500.00	2	1%
First Tennessee Bank, N.A	\$133,000.00	1	0%
Republic Mortgage Home Loans	\$132,500.00	1	0%
BSM Financial, LP	\$131,249.00	1	0%
Prado Mortgage	\$129,950.00	1	0%
First United Bank & Trust Co.	\$127,000.00	1	0%
American Home Mortgage	\$126,996.00	1	0%
TXL Mortgage Corp	\$118,750.00	1	0%
American State Bank - Lubbock	\$98,719.00	1	0%
Coastal Bend Mortgage, Inc.	\$98,223.00	1	0%
<b>Total Committed</b>	<b>\$36,995,321</b>	<b>311</b>	<b>100%</b>

**Total Allocation \$37,235,000**  
**Remaining to Commit \$239,679**

At a Glance	
Total Amount Originated	\$36,995,321
Average Annual Income	\$43,791
Average Purchase Price	\$122,517
Average Loan Amount	\$118,956
Average Household Size	2
New/Existing	
New	30%
Existing	70%
Professional Breakdown	
Teacher	87%
Teacher Aide	1%
School Counselor	1%
School Nurse	1%
School Librarian	0%
Not Specified	9%
Type of Loan	
Conventional	22%
FHA	44%
VA	1%
USDA-RD	33%
Ethnicity	
American Indian/Alaskan Native	0%
Asian or Pacific Islander	2%
Black	16%
Hispanic	16%
White	56%
Other	10%
Not Defined	0%
Top Originating Counties	
Harris	82
Bexar	39
Dallas	30
El Paso	20
Hidalgo	17
Tarrant	16
Travis	13
Collin	10
Montgomery	9
Fort Bend	7
Brazoria	6
Taylor	5
Williamson	4
Nueces	4
Guadalupe	4
Denton	4
Brazos	4
Lubbock	3
Bell	3
Webb	2
San Patricio	2
Randall	2
Liberty	2
Kaufman	2
Jefferson	2
Hays	2



**Texas State Affordable Housing Corporation's  
Professional Educators Home Loan Program Series 2007B  
As of August 20, 2007 through September 4, 2007**

Month	# of Loans	% of Total Loans	Total Originated
Aug-07	38	88%	\$ 4,481,064
Sep-07	5	12%	\$ 544,399
<b>Totals</b>	<b>43</b>	<b>100%</b>	<b>\$ 5,025,463</b>

Lender	Originated	# of Loans	Total %
Countrywide Home Loans, Inc.	\$2,543,184.00	22	51%
Wells Fargo Home Mtg-	\$532,727.00	4	9%
Countrywide - Wholesale	\$395,015.00	4	9%
Rocky Mountain Mortgage Co.	\$316,700.00	3	7%
WR Starkey Mortgage	\$324,806.00	2	5%
Cornerstone Mortgage Company	\$119,900.00	1	2%
Market Street Mortgage Corp.	\$125,827.00	1	2%
National City Mortgage	\$109,250.00	1	2%
Universal American Mortgage Co	\$126,012.00	1	2%
Wachovia Mortgage Corporation	\$80,000.00	1	2%
Coastal Bend Mortgage, Inc.	\$133,942.00	1	2%
Houstonian Mortgage Group Inc.	\$92,000.00	1	2%
R. H. Lending, Inc	\$126,100.00	1	2%
<b>Total Committed</b>	<b>\$5,025,463</b>	<b>43</b>	<b>100%</b>

**Total Allocation**      \$23,510,000  
**Remaining to Commit**    \$18,484,537

At a Glance	
Total Amount Originated	\$5,025,463
Average Annual Income	\$18,179*
Average Purchase Price	\$117,470
Average Loan Amount	\$117,404
Average Household Size	1
New/Existing	
New	85%
Existing	15%
Professional Breakdown	
Teacher	92%
Teacher Aide	0%
School Counselor	0%
School Nurse	0%
School Librarian	0%
Nursing Faculty Member	0%
Allied Health Faculty Member	0%
Not Specified	8%
Type of Loan	
Conventional	20%
FHA	71%
VA	2%
USDA-RD	7%
Ethnicity	
American Indian/Alaskan Native	0%
Asian or Pacific Islander	2%
Black	22%
Hispanic	15%
White	49%
Other	5%
Not Defined	7%
Top Originating Counties	
Harris	14
Bexar	5
El Paso	4
Galveston	3
Tarrant	2
Montgomery	2
Jefferson	2
Denton	2
Wichita	1
Rockwall	1
Potter	1
Nueces	1
Maverick	1
Lubbock	1
Collin	1

\*Average annual income low compared to previous programs due to incomplete information available at time of report.



# **Texas State Affordable Housing Corporation**

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## **Report on Multifamily Programs August 9, 2007**

### **Agenda Item:**

#### **Multifamily Lending Report**

### **Summary:**

For the past several months, multifamily staff has been focused on the private activity bond program, and specifically the Rainbow transaction. Staff is happy to report that the Rainbow transaction was approved by the Texas Bond Review Board at their August 28 board meeting. We are now working with the bond holder, borrower and our internal working group to finalize all of the documents for closing. Pre-closing is scheduled for September 19<sup>th</sup> and 20<sup>th</sup>, with funding on the 21<sup>st</sup>, 2007.

Last week, staff received a preliminary application under the Multifamily Direct Lending program for the Fox Run Apartments in Victoria, Texas. The proposal would allow the Borrower, Housing and Community Services Inc., a non-profit organization, to purchase and rehabilitate 150 units of affordable housing. The property is currently owned and operated by the Victoria Housing Authority and is being sold as part of a HUD Mark-to-Market restructuring. The borrower has requested \$500,000 for rehabilitation costs as a second lien mortgage. Staff will be working through underwriting the request in the next week and will set terms and conditions for the loan according to applicable program guidelines, prior to requesting a loan commitment be issued by the President or Executive Vice President.



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T E X A S

State Affordable Housing Corporation





## Monthly Investment Report

July 31, 2007

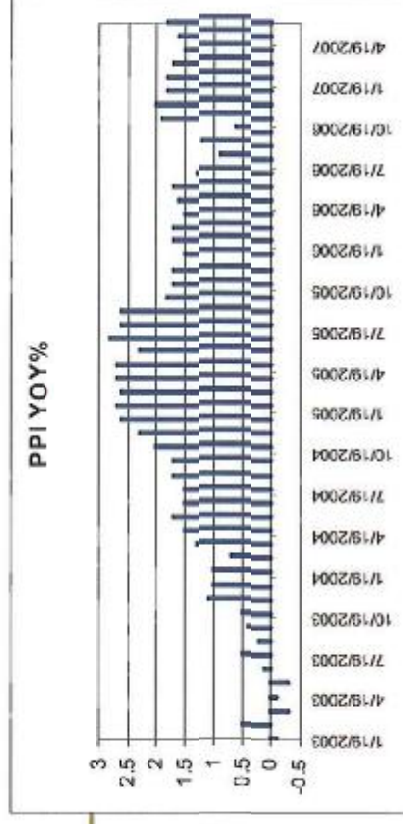
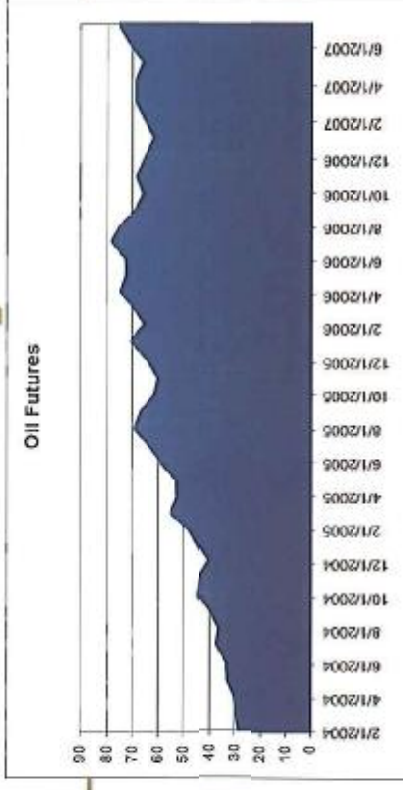
PATTERSON & ASSOCIATES



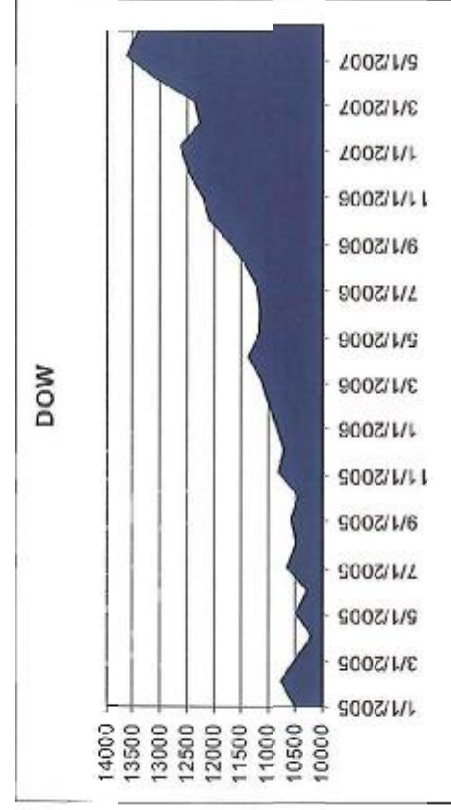
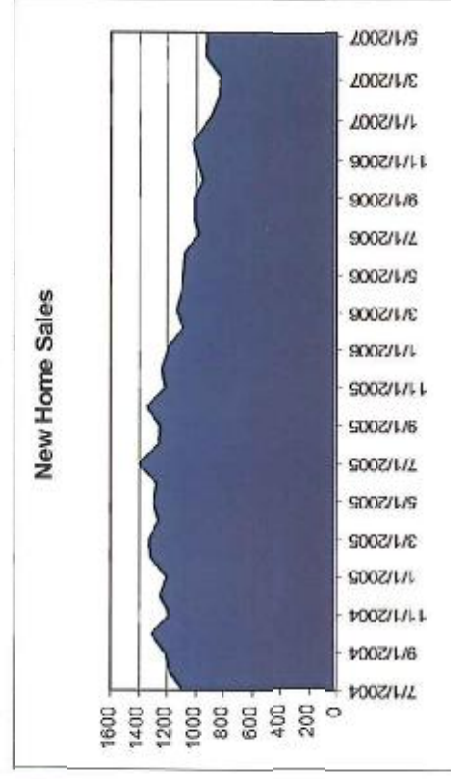
INVESTMENT PROFESSIONALS



# An Uneasy Balance



The mixed signals of the economy continue to keep the markets volatile. The primary focus of the Fed and the markets continues to be an inflation, which remains tepid even with \$75 per barrel oil. An equally large factor in the markets globally is the potential fall-out from the financings of sub-prime mortgages. Two Bear Stearns hedge funds have failed and sent shock waves around the world. Financial institutions world-wide are re-assessing loan portfolios in preparation for extended problems.



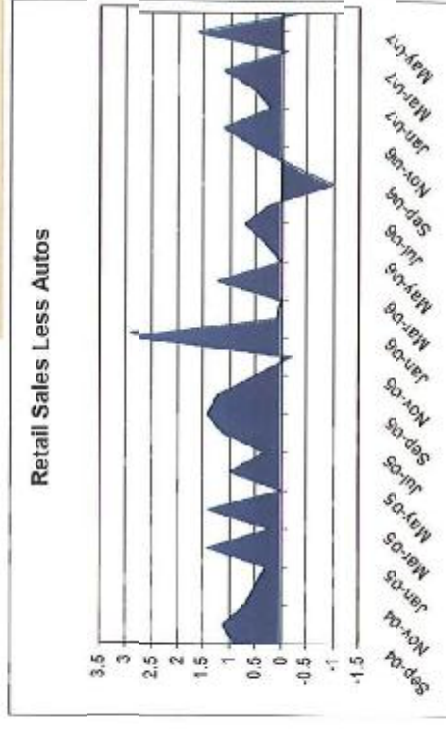
New Home Sales

The Dow

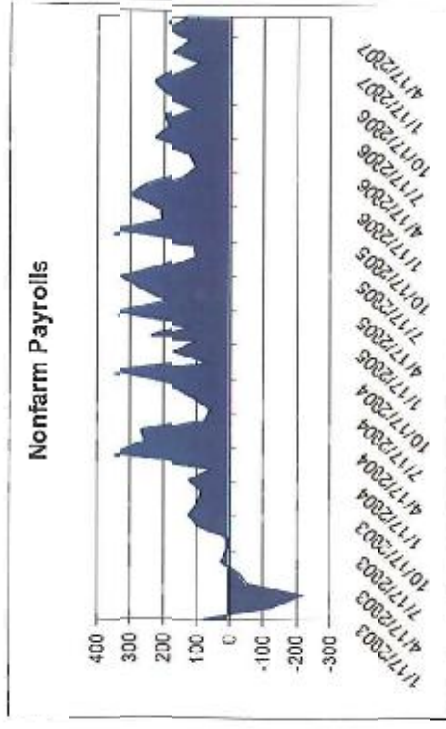


# The Consumer as the Energizer Rabbit

- Although the consumer continues to spend and create a healthy retail sales environment with high corporate earnings, mortgage rates and oil may have a ripple effect in this critical sector.



- As long as the worker has a job it appears that (s)he will spend, and employment remains high in all sectors with the exception of autos. The service sector has picked up much slack from a reduced manufacturing sector.

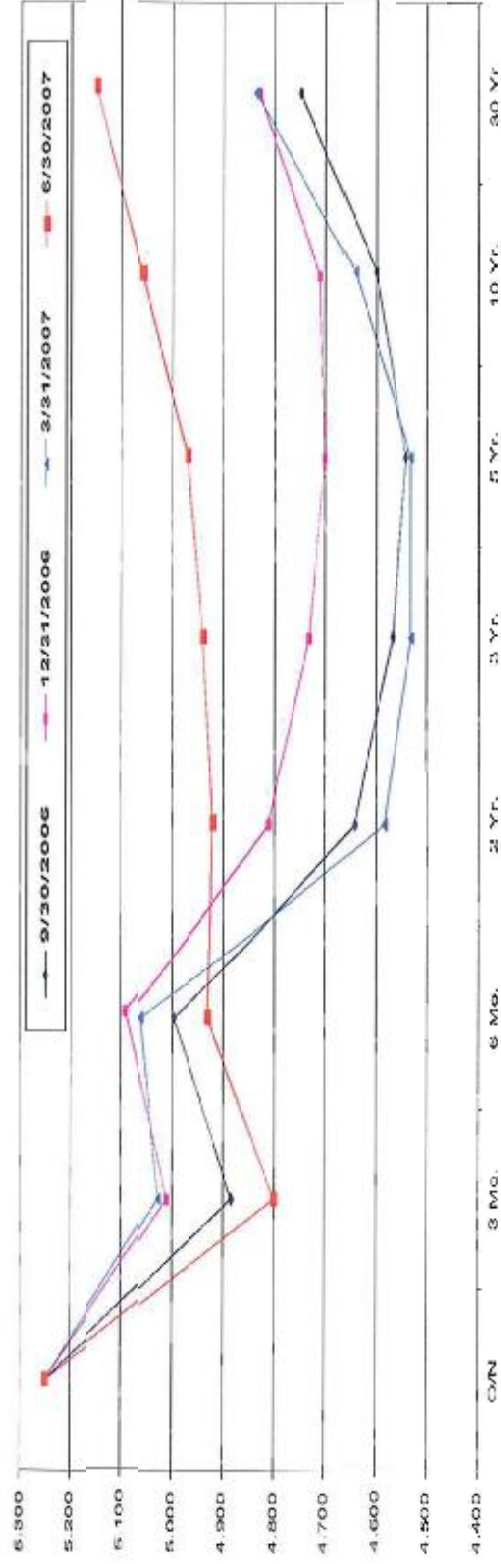




# Quarterly Rate Moves

The market's indecision is reflected in the yield curve. The weight of both positive and negative factors has contributed to a very flat curve fluttering from a fixed 5.25% over-night rate. Although the Fed does not appear likely to move, market factors have caused some volatility.

Last fall (beginning in Aug.) market sentiment envisioned a weak economy and a Fed that would have to cut rates. But in Q2, when growth returned to the economy, visions of lower rates faded and interest rates increased. Inflation and housing problems remain as major fear factors for the curve and will probably continue to do so.





# Your Portfolio

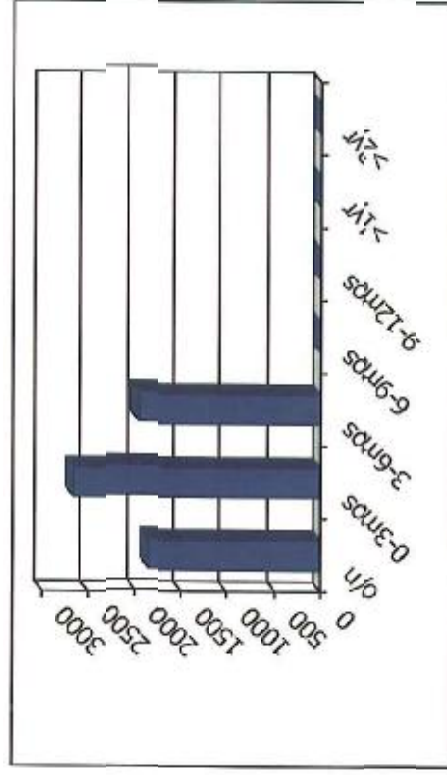
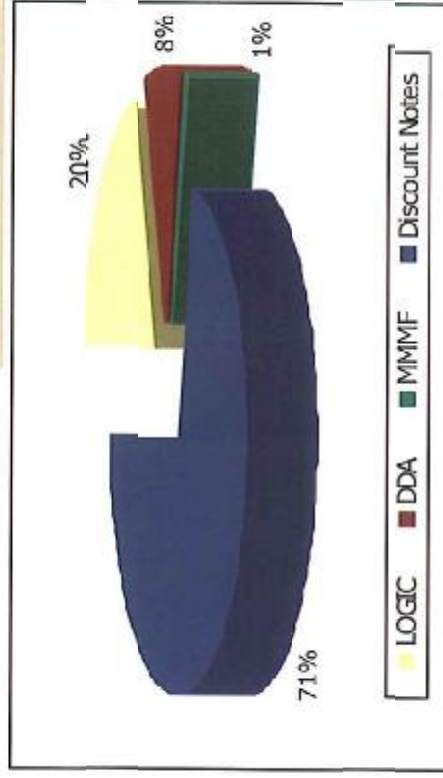
As of July 31, 2007



Every portfolio must be reviewed on the basis of asset allocation and maturity. This type of evaluation assures that the portfolio is diversified to guard against for market risks.

The Corporation's portfolio is extremely liquid because of the competitive rates in the local government pools. With the potential for falling rates, a cautious approach would be an extension in securities to lock in current rate levels and guard against the possibility of falling rates in 2007.

Indications in the third quarter will come primarily from employment expectations and Federal Reserve announcements as they project possible changes in their attitude on the rates.







**Texas State Affordable Housing  
Portfolio Management  
Portfolio Summary  
July 31, 2007**

Patterson & Associates  
301 Congress Ave  
Suite 570  
Austin, TX 78701

Investments	Par Value	Market Value	Book Value	% of Portfolio	Term	Days to Maturity	YTM 365 Equiv.
Federal Agency Disc. -Amortizing LOGIC	4,658,000.00	4,602,030.86	4,602,172.54	71.46	172	84	5.356
FHLB Dallas-Money Fund	1,279,244.45	1,279,244.45	1,279,244.45	19.86	1	1	5.313
Federated Money Market Fund	49,422.68	49,422.68	49,422.68	0.77	1	1	5.314
Bank of America-Checking Account	76,060.34	76,060.34	76,060.34	1.18	1	1	4.910
Wells Fargo Bank	428,022.12	428,022.12	428,022.12	6.65	1	1	1.734
	4,942.50	4,942.50	4,942.50	0.08	1	1	0.000
<b>Investments</b>	<b>6,495,692.09</b>	<b>6,439,722.95</b>	<b>6,439,864.63</b>	<b>100.00%</b>	<b>123</b>	<b>61</b>	<b>5.100</b>
<b>Total Earnings</b>	<b>July 31</b>	<b>Month Ending</b>	<b>Fiscal Year To Date</b>				
Current Year		26,857.14	286,872.10				
Average Daily Balance		6,293,317.47	6,261,575.87				

The following reports are submitted in accordance with the Public Funds Investment Act (Texas Gov't Code 2255). The reports also offer supplemental information not required by the Act in order to fully inform the governing body of the Texas State Affordable Housing Corporation of the position and activity within the Corporation's portfolio of investments. The reports include a management summary overview, a detailed inventory report for the end of the period, a transaction report, as well as graphic representations of the portfolio to provide full disclosure to the governing body.

*Melinda Smith* 8/2007  
Melinda Smith, Chief Financial Officer

Reporting period 07/01/2007-07/31/2007

Run Date: 08/22/2007 - 09:30

Portfolio TSAH

AP

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Report Ver 3.00





**Texas State Affordable Housing  
Summary by Type  
July 31, 2007  
Grouped by Fund**

Patterson & Associates  
301 Congress Ave  
Suite 570  
Austin, TX, 78701

Security Type	Number of Investments	Par Value	Book Value	% of Portfolio	Average YTM 365	Average Days to Maturity
<b>Fund: Bunker Hill Debt</b>						
Bank of America-Checking Account	1	22,392.61	22,392.61	0.35	0.900	1
Subtotal	1	22,392.61	22,392.61	0.35	0.900	1
<b>Fund: Banker-Hill Operating</b>						
Bank of America-Checking Account	1	22,382.53	22,382.53	0.35	0.900	1
Subtotal	1	22,382.53	22,382.53	0.35	0.900	1
<b>Fund: Bunker Hill Senior</b>						
Bank of America-Checking Account	1	41,283.35	41,283.35	0.64	1.250	1
Subtotal	1	41,283.35	41,283.35	0.64	1.250	1
<b>Fund: Disbursement</b>						
Bank of America-Checking Account	1	554.19	554.19	0.01	1.976	1
Subtotal	1	554.19	554.19	0.01	1.976	1
<b>Fund: General Investments</b>						
Federated Money Market Fund	1	76,000.34	76,000.34	1.16	4.910	1
PHLS Dallas-Money Fund	1	49,422.68	49,422.68	0.77	5.614	1
Federal Agency Disc. -Amortizing	8	4,658,000.00	4,602,172.54	71.46	5.356	84
LOGIC	1	1,279,244.45	1,279,244.45	19.96	5.313	1
Subtotal	11	6,062,727.47	6,006,900.01	93.27	5.344	85
<b>Fund: Operating Fund</b>						
Bank of America-Checking Account	1	232,486.32	232,486.32	3.61	2.431	1
Subtotal	1	232,486.32	232,486.32	3.61	2.431	1
<b>Fund: Payment Clearing</b>						
Bank of America-Checking Account	1	0.00	0.00	0.00	0.000	0
Subtotal	1	0.00	0.00	0.00	0.000	0



Texas State Affordable Housing  
Summary by Type  
July 31, 2007  
Grouped by Fund

Page 2

Security Type	Number of Investments	Par Value	Book Value	% of Portfolio	Average YTM 305	Average Days to Maturity
<b>Fund: Sagebrush Apartments</b>						
Bank of America-Checking Account	1	21,936.06	21,936.06	0.34	1.000	1
<b>Subtotal</b>	<b>1</b>	<b>21,936.06</b>	<b>21,936.06</b>	<b>0.34</b>	<b>1.000</b>	<b>1</b>
<b>Fund: Sagebrush Apartments - Debt</b>						
Bank of America-Checking Account	1	38,361.48	38,361.48	0.60	0.900	1
<b>Subtotal</b>	<b>1</b>	<b>38,361.48</b>	<b>38,361.48</b>	<b>0.60</b>	<b>0.900</b>	<b>1</b>
<b>Fund: Sagebrush Apartments - Oper.</b>						
Bank of America-Checking Account	1	22,732.70	22,732.70	0.35	0.900	1
<b>Subtotal</b>	<b>1</b>	<b>22,732.70</b>	<b>22,732.70</b>	<b>0.35</b>	<b>0.900</b>	<b>1</b>
<b>Fund: T &amp; I</b>						
Bank of America-Checking Account	1	3,508.66	3,508.66	0.05	1.980	1
<b>Subtotal</b>	<b>1</b>	<b>3,508.66</b>	<b>3,508.66</b>	<b>0.05</b>	<b>1.980</b>	<b>1</b>
<b>Fund: TX Home Education</b>						
Bank of America-Checking Account	1	22,384.22	22,384.22	0.35	0.000	1
<b>Subtotal</b>	<b>1</b>	<b>22,384.22</b>	<b>22,384.22</b>	<b>0.35</b>	<b>0.000</b>	<b>1</b>
<b>Fund: Wells Fargo - CDC</b>						
Wells Fargo Bank	1	4,942.50	4,942.50	0.08	0.000	1
<b>Subtotal</b>	<b>1</b>	<b>4,942.50</b>	<b>4,942.50</b>	<b>0.08</b>	<b>0.000</b>	<b>1</b>
<b>Total Fund Average</b>	<b>22</b>	<b>6,495,692.03</b>	<b>6,435,964.53</b>	<b>100.00</b>	<b>5.100</b>	<b>361</b>





**Texas State Affordable Housing  
 Fund BHDEBT - Bunker Hill Debt  
 Investments by Fund  
 July 31, 2007**

Patterson & Associates  
 301 Congress Ave  
 Suite 570  
 Austin, TX, 78701

CUSIP	Investment #	Issuer	Purchase Date	Book Value	Par Value	Market Value	Current Rate	YTM 360	YTM 385	Maturity Date	Days To Maturity
<b>Bank of America-Checking Account</b>											
999999991	0015	Bank of America	09/01/2006	22,392.61	22,392.61	22,392.61	0.900	0.887	0.900		1
		Subtotal and Average		22,392.61	22,392.61	22,392.61		0.886	0.900		1
		Total Investments and Average		22,392.61	22,392.61	22,392.61		0.886	0.900		1

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**Fund BHOPER - Bunker Hill Operating**  
**Investments by Fund**  
**July 31, 2007**

Page 2

CUSIP	Investment #	Issuer	Purchase Date	Book Value	Par Value	Market Value	Current Rate	YTM 360	YTM 365	Maturity Date	Days To Maturity
Bank of America-Checking Account											
969999861	0010	Bank of America	09/01/2006	22,382.53	22,382.53	22,382.53	0.900	0.887	0.900		1
			Subtotal and Average	22,382.53	22,382.53	22,382.53		0.883	0.900		1
			Total Investments and Average	22,382.53	22,382.53	22,382.53		0.883	0.900		1

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**Fund BHSENIOR - Bunker Hill Senior**  
**Investments by Fund**  
**July 31, 2007**

Page 3

CUSIP	Investment #	Issuer	Purchase Date	Book Value	Par Value	Market Value	Current Rate	YTM 360	YTM 365	Maturity Date	Days To Maturity
<b>Bank of America-Checking Account</b>											
969999981	0003	Bank of America	03/01/2006	41,283.35	41,283.35	41,283.35	1.250	1.232	1.250		1
		<b>Subtotal and Average</b>		41,283.35	41,283.35	41,283.35		1.233	1.250		1
		<b>Total Investments and Average</b>		41,283.35	41,283.35	41,283.35		1.233	1.250		1

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**Fund DISBURSE - Disbursement  
Investments by Fund  
July 31, 2007**

Page 4

CUSIP	Investment #	Issuer	Purchase Date	Book Value	Par Value	Market Value	Current Rate	YTM 360	YTM 365	Maturity Date	Days To Maturity
Bank of America-Checking Account											
986999991	0007	Bank of America	09/01/2006	554.19	554.19	554.19	1.975	1.948	1.975		1
			Subtotal and Average	554.19	554.19	554.19		1.949	1.976		1
			Total Investments and Average	554.19	554.19	554.19		1.949	1.976		1



**Fund GENERAL - General Investments**  
**Investments by Fund**  
**July 31, 2007**

Page 5

CUSIP	Investment #	Issuer	Purchase Date	Book Value	Par Value	Market Value	Current Rate	YTM 369	YTM 365	Maturity Date	Days To Maturity
<b>Federal Agency Disc. -Amortizing</b>											
313396LV3	0021	FHLMC DN	03/20/2007	496,693.68	500,000.00	496,650.01	5.055	5.258	5.342	09/17/2007	47
313583ME2	22	FHLMC DN	04/11/2007	1,111,149.51	1,120,000.00	1,111,039.97		5.275	5.345	09/26/2007	56
313396MKE	23	FHLMC DN	05/04/2007	272,637.52	275,000.00	272,635.00		5.251	5.324	10/01/2007	81
313396RM7	25	FHLMC DN	07/08/2007	301,063.66	308,000.00	301,063.66		5.307	5.380	01/07/2008	159
313396RU9	26	FHLMC DN	07/17/2007	561,491.18	575,000.00	561,491.18		5.301	5.375	01/14/2008	166
313396QD9	27	FHLMC DN	07/23/2007	549,082.05	550,000.00	549,082.05		5.296	5.339	12/17/2007	138
313583KD5	0019	FNMA DN	02/08/2007	774,233.72	775,000.00	774,224.95	5.055	5.290	5.364	08/08/2007	7
313583PV1	24	FNMA DN	05/01/2007	535,821.22	545,000.00	535,844.04		5.300	5.374	11/28/2007	119
		<b>Subtotal and Average</b>		<b>4,602,172.54</b>	<b>4,658,000.00</b>	<b>4,602,039.86</b>		<b>5.283</b>	<b>5.356</b>		<b>84</b>
<b>LOGIC</b>											
999999966	9005	Logic	09/01/2006	1,279,244.45	1,279,244.45	1,279,244.45	5.313	5.240	5.313		1
		<b>Subtotal and Average</b>		<b>1,279,244.45</b>	<b>1,279,244.45</b>	<b>1,279,244.45</b>		<b>5.240</b>	<b>5.313</b>		<b>1</b>
<b>FHLB Dallas-Money Fund</b>											
999999965	9002	FHLB Money Market Fund	09/01/2006	49,422.68	49,422.68	49,422.68	5.614	5.537	5.614		1
		<b>Subtotal and Average</b>		<b>49,422.68</b>	<b>49,422.68</b>	<b>49,422.68</b>		<b>5.537</b>	<b>5.614</b>		<b>1</b>
<b>Federated Money Market Fund</b>											
600341807	8	Bank of America Money Market	09/01/2006	76,060.34	76,060.34	76,060.34	4.910	4.842	4.910		1
		<b>Subtotal and Average</b>		<b>76,060.34</b>	<b>76,060.34</b>	<b>76,060.34</b>		<b>4.843</b>	<b>4.910</b>		<b>1</b>
		<b>Total Investments and Average</b>		<b>6,006,900.01</b>	<b>6,062,727.47</b>	<b>6,006,758.33</b>		<b>5.271</b>	<b>5.344</b>		<b>64</b>



**Fund OPERATING - Operating Fund**  
**Investments by Fund**  
**July 31, 2007**

Page 6

CUSIP	Investment #	Issuer	Purchase Date	Book Value	Per Value	Market Value	Current Rate	YTM 360	YTM 365	Maturity Date	Days To Maturity
<b>Bank of America-Checking Account</b>											
599999999	0001	Bank of America	09/01/2006	232,486.32	232,486.32	232,486.32	2.431	2.397	2.431		1
			Subtotal and Average	232,486.32	232,486.32	232,486.32		2.398	2.431		1
			Total Investments and Average	232,486.32	232,486.32	232,486.32		2.398	2.431		1



**Fund PCLEAR - Payment Clearing**  
**Investments by Fund**  
**July 31, 2007**

Page 7

CUSIP	Investment #	Issuer	Purchase Date	Book Value	Per Value	Market Value	Current Rate	YTM 360	YTM 365	Maturity Date	Days To Maturity
Bank of America-Checking Account											
999999991	0006	Bank of America	08/01/2006	0.00	0.00	0.00					1
			Subtotal and Average	0.00	0.00	0.00		0.000	0.000		0
			Total Investments and Average	0.00	0.00	0.00		0.000	0.000		0



**Fund SBAPT - Sagebrush Apartments  
Investments by Fund  
July 31, 2007**

Page 8

CUSIP	Investment #	Issuer	Purchase Date	Book Value	Par Value	Market Value	Current Rate	YTM 360	YTM 365	Maturity Date	Days To Maturity
<b>Bank of America-Checking Account</b>											
989999991	0011	Bank of America	09/01/2006	21,936.06	21,936.06	21,936.06	1.000	0.986	1.000		1
			Subtotal and Average	21,936.06	21,936.06	21,936.06		0.985	1.000		1
			Total Investments and Average	21,936.06	21,936.06	21,936.06		0.985	1.000		1



**Fund SBDEBT - Sagebrush Apartments - Debt**  
**Investments by Fund**  
**July 31, 2007**

Page 9

CUSIP	Investment #	Issuer	Purchase Date	Book Value	Par Value	Market Value	Current Rate	YTM 360	YTM 365	Maturity Date	Days To Maturity
<b>Bank of America-Checking Account</b>											
999999991	0213	Bank of America	05/31/2006	38,361.48	38,361.48	38,361.48	0.900	0.887	0.900		1
		Subtotal and Average		38,361.48	38,361.48	38,361.48		0.888	0.900		1
		Total Investments and Average		38,361.48	38,361.48	38,361.48		0.888	0.900		1



Fund SBOPER - Sagebrush Apartments - Oper.  
Investments by Fund  
July 31, 2007

Page 10

CUSIP	Investment #	Issuer	Purchase Date	Book Value	Per Value	Market Value	Current Rate	YTM 360	YTM 365	Maturity Date	Days To Maturity
<b>Bank of America-Checking Account</b>											
999999991	0012	Bank of America	09/01/2006	22,732.70	22,732.70	22,732.70	0.900	0.887	0.900		1
			Subtotal and Average	22,732.70	22,732.70	22,732.70		0.883	0.900		1
			Total Investments and Average	22,732.70	22,732.70	22,732.70		0.883	0.900		1



**Fund II - I & I**  
**Investments by Fund**  
**July 31, 2007**

Page 11

CUSIP	Investment #	Issuer	Purchase Date	Book Value	Par Value	Market Value	Current Rate	YTM 360	YTM 365	Maturity Date	Days To Maturity
<b>Bank of America-Checking Account</b>											
959999901	0003	Bank of America	09/01/2006	3,508.66	3,508.66	3,508.66	1.990	1.952	1.979		1
		Subtotal and Average		3,508.66	3,508.66	3,508.66		1.953	1.980		1
		Total Investments and Average		3,508.66	3,508.66	3,508.66		1.953	1.980		1

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**Fund TXHOME - TX Home Education  
Investments by Fund  
July 31, 2007**

Page 12

CUSIP	Investment #	Issuer	Purchase Date	Book Value	Par Value	Market Value	Current Rate	YTM 360	YTM 365	Maturity Date	Days To Maturity
<b>Bank of America-Checking Account</b>											
999999991	0002	Bank of America	08/01/2006	22,384.22	22,384.22	22,384.22					1
			Subtotal and Average	22,384.22	22,384.22	22,384.22		0.000	0.000		1
			Total Investments and Average	22,384.22	22,384.22	22,384.22		0.000	0.000		1



**Fund WELLS - Wells Fargo - CDC**  
**Investments by Fund**  
**July 31, 2007**

Page 13

CUSIP	Investment #	Issuer	Purchase Date	Book Value	Par Value	Market Value	Current Rate	YTM 360	YTM 365	Maturity Date	Days To Maturity
Wells Fargo Bank											
939699994	0014	Wells Fargo Bank	09/01/2006	4,942.50	4,942.50	4,942.50					1
		Subtotal and Average		4,942.50	4,942.50	4,942.50		0.000	0.000		1
		Total Investments and Average		4,942.50	4,942.50	4,942.50		0.000	0.000		1





**Texas State Affordable Housing  
Cash Reconciliation Report  
For the Period July 1, 2007 - July 31, 2007  
Grouped by Fund**

Patterson & Associates  
301 Congress Ave  
Suite 570  
Austin, TX, 78701

Trans. Date	Investment #	Fund	Trans. Type	Security ID	Par Value	Security Description	Maturity Date	Purchases	Interest	Redemptions	Cash
<b>General Investments</b>											
07/09/2007	0017	GENERAL	Maturity	313396HX4	300,000.00	FMCDN 0.3M 0.00% Mat.	07/09/2007	0.00	0.00	300,000.00	300,000.00
07/09/2007	25	GENERAL	Purchase	313396RM7	300,000.00	FMCDN 0.3M 0.00% Mat.	01/07/2008	-300,000.29	0.00	0.00	-300,000.29
07/16/2007	0018	GENERAL	Maturity	313396JE4	550,000.00	FMCDN 0.6M 0.00% Mat.	07/16/2007	0.00	0.00	550,000.00	550,000.00
07/17/2007	26	GENERAL	Purchase	313396RU9	575,000.00	FMCDN 0.6M 0.00% Mat.	01/14/2008	-550,270.50	0.00	0.00	-550,270.50
07/20/2007	9001	GENERAL	Maturity	313396JJ3	550,000.00	FMCDN 0.6M 0.00% Mat.	07/20/2007	0.00	0.00	550,000.00	550,000.00
07/23/2007	27	GENERAL	Purchase	313396QQ6	550,000.00	FMCDN 0.6M 0.00% Mat.	12/17/2007	-548,370.01	0.00	0.00	-548,370.01
					Subtotal			-1,408,700.80	0.00	1,410,000.00	1,299.20
					Total			-1,408,700.80	0.00	1,410,000.00	1,299.20

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## Texas State Affordable Housing

## Purchases Report

## Sorted by Fund - Fund

July 1, 2007 - July 31, 2007

Patterson & Associates  
301 Congress Ave  
Suite 570  
Austin, TX, 78701

CUSIP	Investment #	Fund	Soc. Type	Original Par Value	Purchase Date	Payment Periods	Principal Purchased	Accrued Interest at Purchase	Rate at Purchase	Maturity Date	YTM	Ending Book Value
General Investments												
313396RM7	25	GENERAL AFD FMCCN	AFD FMCCN	305,000.00	07/09/2007	01/07 - At Maturity	300,060.29			01/07/2008	5.307	301,063.66
313396RU9	26	GENERAL AFD FMCCN	AFD FMCCN	575,000.00	07/17/2007	01/14 - At Maturity	560,270.50			01/14/2008	5.302	561,491.18
313396QQ3	23	GENERAL AFD FMCCN	AFD FMCCN	56,000.00	07/23/2007	12/17 - At Maturity	548,370.01			12/17/2007	5.286	549,082.05
		Subtotal		1,443,000.00			1,408,700.80	0.00				1,411,636.89
		Total Purchases		1,443,000.00			1,408,700.80	0.00				1,411,636.89





Patterson & Associates  
301 Congress Ave  
Suite 570  
Austin, TX, 78701

## Texas State Affordable Housing Maturity Report

Sorted by Maturity Date  
Amounts due during July 1, 2007 - July 31, 2007

CUSIP	Investment #	Fund	Sec. Type	Issuer	Par Value	Maturity Date	Purchase Date	Rate at Maturity	Book Value at Maturity	Interest	Maturity Proceeds	Net Income
313395HX4	0017	GENERAL	AFD	FMCDN	300,000.00	07/09/2007	01/09/2007		300,000.00	0.00	300,000.00	0.00
313395JE4	0018	GENERAL	AFD	FMCDN	550,000.00	07/16/2007	01/19/2007		550,000.00	0.00	550,000.00	0.00
313398J03	9001	GENERAL	AFD	FMCDN	550,000.00	07/20/2007	11/01/2006		550,000.00	0.00	550,000.00	0.00
Total Maturities					1,410,000.00				1,410,000.00	0.00	1,410,000.00	0.00





# Texas State Affordable Housing

## Interest Earnings

Sorted by Fund - Fund

July 1, 2007 - July 31, 2007

Yield on Average Book Value

Patterson & Associates  
301 Congress Ave  
Suite 570  
Austin, TX 78701

CUSIP	Investment #	Fund	Issuer	Ending Par Value	Beginning Book Value	Average Book Value	Maturity Date	CurrentAnnualized Rate	Yield	Adjusted Interest Earnings			
										Interest Earned	Amortization/ Accretion	Adjusted Interest Earnings	
Fund: Bunker Hill Debt													
999999991	0015	BHDEST	BOA	22,392.61	22,375.51	22,375.03		0.900	0.900	17.10	0.00	17.10	
		Subtotal		22,392.61	22,375.51	22,375.03			0.900	17.10	0.00	17.10	
Fund: Bunker Hill Operating													
999999991	0010	BHOPER	BOA	22,362.53	22,365.43	22,365.98		0.900	0.900	17.10	0.00	17.10	
		Subtotal		22,362.53	22,365.43	22,365.98			0.900	17.10	0.00	17.10	
Fund: Bunker Hill Senior													
999999991	0009	BHSENIOR	BOA	41,283.35	40,506.84	40,555.54		1.250	1.254	43.18	0.00	43.18	
		Subtotal		41,283.35	40,506.84	40,555.54			1.254	43.18	0.00	43.18	
Fund: Disbursement													
999999991	0007	DISBURSE	BOA	554.19	554.19	554.19		1.976	1.976	0.93	0.00	0.93	
		Subtotal		554.19	554.19	554.19			1.976	0.93	0.00	0.93	
Fund: General Investments													
31336JJ3	9001	GENERAL	FVCDN	550,000.00	548,563.13	336,679.62	07/20/2007		5.025	0.00	1,436.87	1,436.87	
999999995	9002	GENERAL	FHLBNM	45,422.68	5,927.69	5,934.27		5.614	40.495	204.10	0.00	204.10	
999999996	9005	GENERAL	LOG C	1,275,244.45	1,273,547.74	1,273,731.50		5.313	5.266	5,696.71	0.00	5,696.71	
00934N007	8	GENERAL	BOAMM	76,060.34	75,756.74	75,766.53		4.910	4.718	303.60	0.00	303.60	
313396H24	0017	GENERAL	FVCDN	300,000.00	299,661.40	77,381.13	07/09/2007		5.152	0.00	336.60	336.60	
313396JE4	0019	GENERAL	FVCDN	500,000.00	559,811.17	270,699.30	07/16/2007		5.171	0.00	1,186.83	1,186.83	
313398KD6	0019	GENERAL	FNDN	775,000.00	770,840.19	772,591.69	08/08/2007	5.085	5.172	0.00	3,393.53	3,393.53	
313398ME2	0021	GENERAL	FVCDN	500,000.00	494,512.92	495,038.47	09/17/2007	5.065	5.101	0.00	2,190.76	2,190.76	
313398M46	22	GENERAL	FVCDN	1,120,000.00	1,108,250.13	1,108,778.84	09/26/2007		5.203	0.00	4,899.38	4,899.38	
313398M46	23	GENERAL	FVCDN	275,000.00	271,436.92	272,056.59	10/01/2007		5.196	0.00	1,200.60	1,200.60	
313598PV1	24	GENERAL	FNDN	545,000.00	533,430.11	534,664.23	11/28/2007		5.266	0.00	2,391.11	2,391.11	
313398RM7	25	GENERAL	FVCDN	308,000.00	0.00	223,013.78	01/07/2008		5.297	0.00	1,003.37	1,003.37	
313398RU6	26	GENERAL	FVCDN	575,000.00	0.00	271,413.64	01/14/2009		5.295	0.00	1,220.68	1,220.68	

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**Texas State Affordable Housing  
Interest Earnings  
July 1, 2007 - July 31, 2007**

Page 2

CUSIP	Investment #	Fund	Issue	Ending Par Value	Beginning Book Value	Average Book Value	Maturity Date	Current Annualized Rate	Yield	Adjusted Interest Earnings			
										Interest Earned	Amortization/ Accretion	Adjusted Interest Earnings	
Fund: General Investments													
313399009	27	GENERAL	FMDCN	550,000.00	0.00	159,319.04	12/17/2007		5.262	0.00	712.04	712.04	
			Subtotal	7,472,727.47	5,938,738.14	5,877,668.63			5.242	6,204.41	19,965.77	26,170.18	
Fund: Operating Fund													
999999991	0001	OPERATING	BOA	232,486.32	213,052.27	213,069.62		2.431	2.972	537.76	0.00	537.76	
			Subtotal	232,486.32	213,052.27	213,069.62			2.972	537.76	0.00	537.76	
Fund: Sagebrush Apartments													
999999991	0011	SBAPT	BOA	21,935.06	20,917.72	20,518.51		1.800	1.632	18.34	0.00	18.34	
			Subtotal	21,935.06	20,917.72	20,918.31			1.632	18.34	0.00	18.34	
Fund: Sagebrush Apartments - Debt													
999999991	0013	SBDEBT	BOA	38,361.48	38,332.18	38,333.13		0.900	0.900	29.30	0.00	29.30	
			Subtotal	38,361.48	38,332.18	38,333.13			0.900	29.30	0.00	29.30	
Fund: Sagebrush Apartments - Oper.													
999999991	0012	SBOPER	BOA	22,732.70	22,715.34	22,715.90		0.900	0.900	17.36	0.00	17.36	
			Subtotal	22,732.70	22,715.34	22,715.90			0.900	17.36	0.00	17.36	
Fund: T & I													
999999991	0008	TI	BOA	3,508.66	3,508.66	3,508.66		1.880	1.977	5.89	0.00	5.89	
			Subtotal	3,508.66	3,508.66	3,508.66			1.977	5.89	0.00	5.89	
			Total	7,878,365.37	6,323,066.28	6,262,066.02			5.050	6,891.37	19,965.77	26,857.14	

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**Texas State Affordable Housing  
Amortization Schedule  
July 1, 2007 - July 31, 2007  
Sorted By Fund - Fund**

Patterson & Associates  
301 Congress Ave  
Suite 570  
Austin, TX, 78701

Investment #	Fund	Maturity Date	Beginning Per Value	Purchase	Original Premium	Ending	Amounts Amortized	Amount Amortized	Amt Amortized	Amount Unamortized
Issuer		Amort. Date	Current Rate	Principal	or Discount	Book Value	As of 07/01/2007	This Period	Through 07/31/2007	Through 07/31/2007
<b>General Investments</b>										
0017 FHLMC DN	GENERAL	07/09/2007	300,000.00	292,339.19	-7,660.82	0.00	7,522.22 -338.60	338.60	7,660.82	0.00
0018 FHLMC DN	GENERAL	07/16/2007	560,000.00	545,892.61	-14,107.49	0.00	12,918.66 -1,188.83	1,188.83	14,107.49	0.00
0021 FHLMC DN	GENERAL	08/17/2007	500,000.00 5.065	487,267.15	-12,732.85	456,853.66	7,245.77 -5,487.09	2,180.76	9,426.53	-3,306.32
22 FHLMC DN	GENERAL	09/26/2007	1,120,000.00	1,093,443.53	-26,551.47	1,111,149.51	12,501.60 -13,749.87	4,899.38	17,700.98	-8,850.49
23 FHLMC DN	GENERAL	10/01/2007	275,000.00	269,190.63	-5,809.37	272,637.52	2,246.29 -3,563.08	1,200.80	3,446.89	-2,362.48
25 FHLMC DN	GENERAL	01/07/2008	308,000.00	300,063.29	-7,936.71	321,053.66	0.00 -7,539.71	1,003.37	1,003.37	-3,936.34
26 FHLMC DN	GENERAL	01/14/2008	575,000.00	560,270.50	-14,729.50	561,451.16	0.00 -14,729.50	1,220.68	1,220.68	-13,508.82
27 FHLMC DN	GENERAL	12/17/2007	580,000.00	546,370.01	-11,629.99	549,082.05	0.00 -11,629.99	712.04	712.04	-10,917.95
9001 FHLMC DN	GENERAL	07/20/2007	550,000.00	530,261.66	-19,738.12	0.00	16,301.25 -1,436.87	1,436.87	19,736.12	0.00
0010 FNMA DN	GENERAL	08/09/2007	775,000.00 5.085	755,166.16	-19,813.84	774,233.72	15,654.03 -4,159.81	3,593.53	15,047.56	-766.26
24 FNMA DN	GENERAL	11/28/2007	545,000.00	531,116.13	-13,883.87	535,821.22	2,313.98 -11,569.85	2,391.11	4,705.06	-9,178.78
<b>Subtotal:</b>				<b>7,037,592.93</b>	<b>-154,597.03</b>	<b>4,602,172.54</b>	<b>76,803.80 -75,793.23</b>	<b>49,365.77</b>	<b>96,799.57</b>	<b>55,937.46</b>
<b>Total:</b>				<b>9,513,402.97</b>	<b>-154,597.03</b>	<b>4,602,172.54</b>	<b>76,803.80 -75,793.23</b>	<b>19,365.77</b>	<b>96,799.57</b>	<b>-9,562.746</b>

Portfolio TSAH  
AP  
45,000,000 Symbol: 1.0  
Report 1/2/08 5.00





# Texas State Affordable Housing Projected Cashflow Report

Sorted by Fund

For the Period August 1, 2007 - February 28, 2008

Patterson & Associates  
301 Congress Ave  
Suite 570  
Austin, TX 78701

Projected Trans. Date	Investment #	Fund	Secure ID	Transaction Type	Issuer	Par Value	Original Cost	Principal	Interest	Total
<b>General Investments</b>										
08/08/2007	0019	GENERAL	313558K056	Maturity	FNMA-DN	775,000.00	755,166.16	775,000.00	0.00	775,000.00
09/17/2007	0021	GENERAL	313561V3	Maturity	FHLMC DN	500,000.00	487,287.15	500,000.00	0.00	500,000.00
09/26/2007	22	GENERAL	313568ME9	Maturity	FHLMC DN	1,120,000.00	1,092,446.59	1,120,000.00	0.00	1,120,000.00
10/01/2007	23	GENERAL	313568MK6	Maturity	FHLMC DN	275,000.00	269,180.83	275,000.00	0.00	275,000.00
11/28/2007	24	GENERAL	313569PV1	Maturity	FNMA DN	646,000.00	591,116.13	646,000.00	0.00	646,000.00
12/17/2007	27	GENERAL	313566Q09	Maturity	FHLMC DN	560,000.00	546,370.01	560,000.00	0.00	560,000.00
01/07/2008	25	GENERAL	313568RN7	Maturity	FHLMC DN	308,000.00	300,060.26	308,000.00	0.00	308,000.00
01/14/2008	26	GENERAL	313568RU9	Maturity	FHLMC DN	575,000.00	560,270.50	575,000.00	0.00	575,000.00
Total for General Investments						4,658,000.00	4,544,909.40	4,658,000.00	0.00	4,658,000.00
<b>GRAND TOTALS:</b>						4,658,000.00	4,544,909.40	4,658,000.00	0.00	4,658,000.00

Portfolio TSAH  
AP  
PC (PMT\_PC) Symmetric v1.0  
Report Ver. 5.00



**BOARD MEETING  
TEXAS STATE AFFORDABLE HOUSING CORPORATION  
Held in the Capitol Extension  
Room E1.010  
Austin Texas 78701  
August 9, 2007 at 10:30 am**

**Summary of Minutes**

**Call to Order, Roll Call  
Certification of Quorum**

**The Board Meeting of the Texas State Affordable Housing Corporation (the “Corporation”) was called to order by Jerry Romero, Chair, at 10:30 p.m., on August 9, 2007, in the Capitol Extension Room E1.010, Austin, TX 78701. Roll Call certified that a quorum was present.**

**Members Present**

Jerry Romero, Chair  
Thomas A. Leeper, Vice Chair  
Jesse A. Coffey, Member

**Members Absent**

Charles G. Rencher, Member  
Jo Van Hovel, Member

**Staff Present**

David Long, President  
Katherine Closmann, Executive Vice President  
Melinda Smith, Chief Financial Officer  
Paige McGilloway, Single Family Programs Manager  
David Danenfelzer, Multifamily Programs Manager  
Kevin Crusier, Multifamily Programs  
Patricia Corser, Asset Oversight & Compliance Manager  
Janie Taylor, Manager of Marketing and Development  
Laura Ross, Corporate Secretary

**Public Comment**

Please refer to Tab 2 for public comment.

**Special Guests**

Bob Dransfield, Fulbright and Jaworski, LLP  
Rob Dubbelde, Greenberg Traurig  
Bill Gehrig, Greenberg Traurig  
Robin Miller, First Southwest Company  
Elena Pienado, Texas Department of Housing and Community Affairs (TDHCA)



## **Tab Items**

### **Tab 1            Presentation, Discussion and Possible Approval of Minutes of the Board Meeting held on July 17, 2007.**

Mr. Coffey made a motion to approve the minutes of the Board Meeting held on July 17, 2007. Mr. Leeper seconded the motion. Motion passed unanimously.

### **Tab 2            Presentation, Discussion and Possible Approval of a Resolution authorizing the issuance of Texas State Affordable Housing Corporation Multifamily Housing Revenue Bonds (Rainbow Apartment Projects) Series 2007, a Trust Indenture, a Loan Agreement, a Bond Purchase Agreement, a Regulatory Agreement; authorizing the execution of documents and instruments necessary or convenient to carry out the issuance of the bonds; and other provisions in connection therewith.**

Mr. Danenfelzer began by giving an overview of the project. Mr. Danenfelzer informed the Board that public hearings were held during the month of June in each of the affected communities, as well as in Austin. Mr. Danenfelzer reported that there was overwhelming support for the transaction at the hearings. Mr. Danenfelzer also stated that the borrower had received letters of support and votes from the resident councils at each of the properties supporting the transaction and the rehab that would be done. Mr. Danenfelzer noted that ten letters from public officials had been received in support of the transaction. Mr. Danenfelzer made the Board aware that the transaction involved several layers of financing including bonds, housing tax credits and a proposed loan from the Corporation for gap financing. Mr. Danenfelzer elaborated further on the financing for the project. Mr. Danenfelzer stated that staff had met with the Bond Review Board (BRB) the previous day and had answered several questions about the transaction. Mr. Danenfelzer stated that staff would meet with the BRB again on August 28<sup>th</sup> for a final vote for approval on the bonds.

Mr. Porter with RHAC Texas Portfolio, LP introduced himself to the Board. Mr. Porter gave an overview of the project and what the rehab would entail. Mr. Porter noted that all the units were 100% Section 8. Mr. Romero inquired as to how fluctuation in rents would affect the tenants and Mr. Porter explained that though the rents might fluctuate, the rent for the tenant would not, as long as their income didn't change. Mr. Romero inquired as to how many units Rainbow managed and Mr. Porter explained that they hired third-party management companies to manage the properties and for this portfolio the management company would be Capstone. Mr. Porter stated that they had wanted to do this transaction because it was an the opportunity to promote energy conservation and, being that there were long term Section 8 contracts on the properties, a lot of the financial risk was taken away.

Mr. Danenfelzer stated that staff was seeking the Board's approval to move forward with the transaction and noted that the approval would be contingent upon the approval of tax credits by TDHCA and bonds by the BRB. Mr. Romero stated that there had been a lot of questions on this deal, but staff had worked hard to answer all of them. Mr. Romero noted that this was not a 501(c)(3) deal and was not being structured the same way.



Mr. Leeper inquired if Mr. Danenfelzer felt the transaction met the Corporation's mission and Mr. Danenfelzer stated that he felt it far surpassed the Corporation's target qualifications for rehab under the original RFP. Mr. Danenfelzer also pointed out that the transaction was reaching areas of the State which generally did not receive tax credits or bonds.

Mr. Leeper asked if there had been inquiries into the transaction from State Representatives and other representatives of the housing community and Mr. Danenfelzer stated that there had been and that staff had been proactive in communications. Mr. Danenfelzer noted that staff had communicated regularly with TDHCA regarding any questions they had in congruence with the tax credit application. Mr. Danenfelzer also noted that staff had been working with the BRB since May to answer any questions about the transaction they had. Mr. Danenfelzer stated that the City Council of Copperas Cove had unanimously passed a resolution supporting the project and tax credits. Discussion followed.

Mr. Coffey made a motion to approve a resolution authorizing the issuance of Texas State Affordable Housing Corporation Multifamily Housing Revenue Bonds (Rainbow Apartment Projects) Series 2007, a Trust Indenture, a Loan Agreement, a Bond Purchase Agreement, a Regulatory Agreement; authorizing the execution of documents and instruments necessary or convenient to carry out the issuance of the bonds; and other provisions in connection therewith. Mr. Leeper seconded the motion. Motion passed unanimously.

**Tab 3                    Presentation, Discussion and Possible Approval of a Resolution Regarding the Approval of a Subordinate Loan From Texas State Affordable Housing Corporation, as Lender to the 12 Separate Limited Liability Companies in the Rainbow Portfolio Listed in this Resolution, whose Sole Member is RHAC-Texas Portfolio, L.P., collectively, as Borrowers, in an amount not to exceed \$500,000.00.**

Mr. Danenfelzer informed the Board that the subordinate loan would be at 4 % interest over a 15-year term and would be paid out of cash flow after primary debt and operating expenses and on par with the deferred developer's fee. Mr. Danenfelzer explained that the note had a suspension clause stating if the deferred developer's fee wasn't paid out before or by the 8<sup>th</sup> year then the Corporation's note would be held off until the developer's fee was paid. Mr. Danenfelzer explained that a condition of the tax credits was that the developer's fee be paid by the 15<sup>th</sup> year. Mr. Danenfelzer stated that staff had been very conservative in the underwriting of the note, and that the same underwriting standards employed by TDHCA had been used. Mr. Danenfelzer refreshed the Board's memory that the original RFP had stated that \$500,000 notes would be available to provide gap financing should the need arise. Mr. Danenfelzer also reminded the Board of the EQ2 award through Wells Fargo Bank, part of which was specifically designated to go towards multifamily gap financing. Mr. Danenfelzer noted that because the note was being financed by the Corporation, staff had a flexibility to what the percentage rate would be.

Mr. Leeper inquired what would occur if at the end of the 15<sup>th</sup> year the note wasn't fully repaid, and Mr. Danenfelzer explained that the Corporation would then have the ability to restructure the note. Mr. Danenfelzer stated that if the note was suspended in the 8<sup>th</sup> year, the end of that suspension would be the 15<sup>th</sup> year. Mr. Romero inquired after the extraordinary steps taken to ensure that the project would be managed the way it was intended to be and Mr. Danenfelzer stated that the Corporation would be using every power available to them under statute to ensure that it was. Mr. Coffey inquired about inspections and Mr. Danenfelzer stated that two



inspections would be conducted mid-term and then one would be conducted upon final completion, all by Corporation staff. Mr. Danenfelzer stated that the primary lender, Centerline Capital Group, would also be doing their own, separate inspections as would TDHCA in congruence with the tax credits.

Mr. Leeper made a motion to approve a resolution regarding the approval of a subordinate loan from Texas State Affordable Housing Corporation, as Lender to the 12 separate limited liability companies in the Rainbow Portfolio listed in this Resolution, whose Sole Member is RHAC-Texas Portfolio, L.P., collectively, as Borrowers, in an amount not to exceed \$500,000.00. Mr. Coffey seconded the motion. Motion passed unanimously.

**Tab 4      Presentation, Discussion and Possible Approval of a Resolution Authorizing the Issuance, Sale and Delivery of Single Family Mortgage Revenue Bonds (Professional Educators Home Loan Program) Series 2007B; Authorizing a Trust Indenture, an Origination, Sale and Servicing Agreement, Bond Purchase Agreement and Continuing Disclosure Agreement, Making Certain Findings and Determinations; Authorizing the Execution of Documents and Instruments Necessary or Convenient to Carry Out a 2007 Texas State Affordable Housing Corporation Professional Educators Home Loan Program; and Containing Other Matters Incident and Related Thereto.**

Ms. McGilloway explained that the resolution before the Board would allow staff to move forward with the 2007 allocation of \$25 million for the Professional Educators Home Loan Program. Ms. McGilloway informed the Board that the application to the BRB had passed unanimously. Ms. McGilloway stated that it was staff's plan to price the bonds the following Thursday, August 16<sup>th</sup>, and have the transaction close on September 19<sup>th</sup>. Ms. McGilloway confirmed that this would be the last of the Corporation's annual allocations. Discussion followed regarding the pursuit of additional funding for the programs.

Mr. Withrow with RBC Dain Rauscher introduced himself to the Board and proceeded to explain the upcoming pricing and closing of the Professional Educators Home Loan Program transaction.

Mr. Romero inquired about cleaning up the pipeline and Ms. McGilloway stated that the Corporation's master servicer, Countrywide, conducted a pipeline cleanup on a weekly basis. Ms. McGilloway further explained that Countrywide did not maintain a waiting list, so it was on a first-come, first-served basis as to when funds became available through fallout. Mr. Withrow continued to speak to the transaction and discussion followed.

Mr. Coffey made a motion to approve a resolution authorizing the issuance, sale and delivery of Single Family Mortgage Revenue Bonds (Professional Educators Home Loan Program) Series 2007B; authorizing a Trust Indenture, an Origination, Sale and Servicing Agreement, Bond Purchase Agreement and Continuing Disclosure Agreement, making certain findings and determinations; authorizing the execution of documents and instruments necessary or convenient to carry out a 2007 Texas State Affordable Housing Corporation Professional Educators Home Loan Program; and containing other matters incident and related thereto. Mr. Romero seconded the motion. Motion passed unanimously.

## **Reports**

### **Presidents Report**



Mr. Long began by informing the Board that staff had attended the Texas Affiliation of Affordable Housing Providers (TAAHP) conference the previous week. Mr. Long stated that staff continued to work on the annual contract for a Professional Employment Organization (PEO) and noted that Administaff was the Corporation's current provider. Mr. Long stated that six responses to the RFP for PEO services had been received and that staff would make a determination and then inform the Board at the next meeting. Mr. Long noted that the FY 2008 Operating Budget would also be presented at the next meeting.

Mr. Long informed the Board of his intention to meet with the board members in their hometowns. Mr. Long expressed his thanks to Mr. Coffey for the opportunity to meet with him and Mr. Romero.

Mr. Long noted that staff continued to work on the Sunset Self-Evaluation Report which was due August 24<sup>th</sup>.

Mr. Long informed the Board that the Corporation was at the end of its 2005-2007 Business Plan time period. Mr. Long stated that a planning session would be scheduled in the coming months to develop a new business plan for the next two years. Mr. Romero suggested that the Sunset process be a topic of discussion for the planning session.

Mr. Long made the Board aware that in addition to the budget being addressed at the next meeting, the RFP for auditor would be discussed. Mr. Long noted that an Audit Committee meeting would need to take place. Discussion followed.

### **Executive Vice President's Report**

Ms. Closmann began by thanking Mr. Danenfelzer for all his hard work on the Rainbow Housing transaction. Ms. Closmann also thanked Ms. Corser, Mr. Dransfield with Fulbright & Jaworski and Mr. Dubbelde with Greenberg Traurig. Ms. Closmann noted that staff had worked especially hard on the Compliance Agreement to ensure that what happened with the 501(c)(3) portfolios wouldn't happen with this transaction. Ms. Closmann noted that one provision included was that, if the bond purchaser wasn't doing what needed to be done as far as health and safety violations were concerned, then Corporation staff could use repair and replacement funds to make those repairs. Ms. Closmann also stated that penalties would be in place for noncompliance. Ms. Closmann noted that 18 months after the rehabilitation inspection, staff would go out and do another inspection to ensure that all had been done. Ms. Closmann continued to speak to the provisions spelled out in the Compliance Agreement.

Ms. Closmann noted that Mr. Cruser had also worked very hard on the Rainbow transaction. Ms. Closmann informed the Board that Mr. Cruser was also doing an excellent job calculating PILOT payment totals of what was owed and not paid by the 501(c)(3) portfolios since 2002. Ms. Closmann stated that liens for the total amounts would be filed with the counties so they would be of record should the individual properties be refinanced or sold. Ms. Closmann noted that the PILOT agreements themselves acted as a lien, but they did not include specific amounts and staff wanted to make sure that specific amounts were on record.

Ms. Closmann stated that staff continued to work on the Sunset Self-Evaluation Report that was due on August 24<sup>th</sup>.



## **Single Family Lending Report**

Ms. McGilloway began by refreshing the Board's memory that the Corporation served as account administrator for the Texas Statewide Homebuyer Education Program (TSHEP). Ms. McGilloway stated that the week-long homebuyer education certification course through TSHEP had occurred July 16<sup>th</sup>- 20<sup>th</sup>. Ms. McGilloway informed the Board that TSHEP would have two more two-day courses during August, one on Foreclosure Prevention and another on Combating Predatory Lending.

Ms. McGilloway stated that the pricing for the 2007B transaction would occur on August 16<sup>th</sup> and the closing would occur on September 19<sup>th</sup>. Ms. McGilloway informed the Board that information as to when funds would be available had been provided on the Corporation's website. Ms. McGilloway informed the Board that an application had been submitted to the BRB for an additional \$25 million for the program serving borrowers at 80 percent or below area median family income (AMFI). Ms. McGilloway refreshed the Board's memory to the fact that funds for that program in 2006 had been committed in 4 months.

Ms. McGilloway informed the Board that the 2007 Homes for Texas Heroes Program had been fully originated. Ms. McGilloway stated that there was \$2.6 million left in the 2006 program, a result of loans falling out of the pipeline. Ms. McGilloway noted that at the previous board meeting the interest rate for that program had been adjusted to reflect that of the 2007 program. Ms. McGilloway stated that the lenders had been sent notice that these funds were now available.

Ms. McGilloway reminded the Board that at the previous meeting they had approved staff going forward with submitting applications to the BRB for more funding for both the Professional Educators and the Homes for Texas Heroes programs. Ms. McGilloway stated that those applications were for an additional \$50 million for both programs and each application was due September 1<sup>st</sup>.

## **Multifamily Lending Report**

Mr. Danenfelzer stated that his report in the board packet was an introduction to the two tab items already approved that morning.

## **Marketing and Development**

Ms. Taylor began by informing the Board that she would be sending them a copy of the Corporation-focused brochure that she had been working on. Ms. Taylor briefly described what it would look like.

Ms. Taylor stated that an advertisement would be appearing in the fall issue of the Association of Texas Professional Educators newsletter.

Ms. Taylor made the Board aware that she and Ms. McGilloway would be attending the Texas Association of Realtors convention in Galveston in early September where they would be maintaining a booth. Ms. Taylor stated that Ms. McGilloway would have an exhibit at the Combined Law Enforcement Agencies of Texas (CLEAT) Conference in Brownsville in October.



Ms. Taylor refreshed the Board's memory that staff was working with Texas Low Income Housing Information Service and other groups to create a locator website for affordable housing. Ms. Taylor stated that the participating groups would be meeting the following week to discuss the website further. Discussion followed regarding the website and the information that would be made available on the website.

Ms. Taylor informed the Board that the Corporation had received a response from the foundation in New York that staff had sent a letter of inquiry for a grant of \$50,000. Ms. Taylor reported that they had requested the Corporation fill out a formal application.

Mr. Romero inquired if anything further had been discussed or done with regard to changing the name of the Corporation and Ms. Taylor stated that after discussion, staff was thinking of creating a subsidiary or separate entity that would solely seek funding, grants and sponsorships. Ms. Taylor noted that it was a complicated issue and there were a lot of things to consider. Ms. Taylor stated that if the Board had any suggestions or opinions on the matter to please send them to her.

### **Asset Oversight & Compliance Report**

Ms. Corser began by turning the Board's attention to the compliance report in the board packet. Ms. Corser noted that Marshal Meadows had been added and they had been reporting for the last three months. Ms. Corser pointed out that the requirements for Marshall Meadows were slightly different than the other portfolios. Ms. Corser reported that Chelsea Court, who had been out of compliance since January, was now back in compliance after submitting their July report. Ms. Corser stated that a 100% file audit was scheduled for Chelsea Court on October 15 to verify their compliance. Ms. Corser turned to the American Housing Foundation (AHF) portfolio and noted that two properties, Shadowridge and Creekwood, were out of compliance in June. Ms. Corser stated that Shadowridge had been unable to correct the problem in July and she was still waiting on reports from Creekwood to see if they had been able to correct the problem. Ms. Corser noted that proper notifications would be issued to both properties once it was confirmed. Ms. Corser stated that The Wharf, a South Texas Affordable Properties Portfolio property, had been out of compliance since April and had been issued a 60-day notice.

Mr. Romero asked for an explanation of the acronyms LI and VLI used on the compliance report. Ms. Corser explained that LI meant "low income" and referred to 80 percent or below the AMFI and that VLI meant "very low income" and referred to 50 percent or below the AMFI. Ms. Corser explained that the target for those numbers was 75 percent LI and 20 percent VLI. Ms. Corser stated that Marshall Meadows only had to meet the VLI requirements.

Ms. Corser turned to Aguila Oaks and noted that when an on-site file audit was conducted in March, they had been found to be not in compliance and had failed to submit documentation that showed they were back in compliance. Ms. Corser stated that a formal 60 day notice had been sent and she had also spoken with Mr. Bernal, the Vice President of housing and economic development, to reiterate the importance of getting the non-compliance corrected within 60 days. Ms. Corser noted that if they did not show signs of progress, then a Notice of Default would be issued. Mr. Romero inquired what the Corporation could do when properties were out of compliance. Ms. Closmann responded that staff would train property staff on compliance. Ms. Closmann also noted that National Farmworkers had taken over the management of Aguila Oaks and there had been a high turnover in property managers. Ms. Closmann noted that if this didn't work, the trustee would then be notified of the non-compliance and there could be tax



consequences. Ms. Corser noted that she would be meeting with Mr. Gavin at the property later in the month to discuss the compliance issues.

Ms. Corser turned the Board's attention to Resident Services quarterly report. Ms. Corser noted that a correction to the Resident Services had been made and proceeded to hand out those corrections to the Board. Ms. Corser announced that 31 out of 36 properties had provided resident services for all three months of the quarter. Ms. Corser noted that Champions Green had services in April, but not in May or June. However, Ms. Corser did note that services had been provided in July for that property. Ms. Corser also noted that Aguila Oaks had provided services in April, but reports had not been submitted in May or June. Ms. Corser noted that they had until August 15<sup>th</sup> to make their submissions or a notice of non-compliance would be issued on August 16<sup>th</sup>. Mr. Romero inquired how the numbers attending resident services were actually authenticated and Ms. Corser said that each property kept a sign in book for each activity and that they were studied when compliance audits of the properties were conducted. Mr. Romero suggested that staff visit with property staff at The Rafters to discuss their resident services plan and how it had come to be so successful.

### **Financial Report**

Ms. Smith began by referring the Board to the report contained in the board packet regarding budget to actual expenditures. Ms. Smith noted that as of June 30, 2007, the Corporation had a cash basis profit of \$222,000. Ms. Smith noted that the Corporation was down in multifamily revenue due to the 501(c)(3) properties, but was up in revenue from investments and single family income.

### **Open Meeting**

After discussion, it was determined that the next Board Meeting would occur on Friday, September 14, 2007, at 11:00am and would follow a meeting of the Audit Committee that would take place at 10:00am.

### **Adjournment**

Mr. Leeper made a motion to adjourn the meeting. Mr. Coffey seconded the motion. Motion passed unanimously.

The Texas State Affordable Housing Corporation Board Meeting was officially adjourned at 12:05 pm.

Respectfully submitted by \_\_\_\_\_  
Laura Ross, Corporate Secretary



**RESOLUTION NO. 07-\_\_\_\_**

**TEXAS STATE AFFORDABLE HOUSING CORPORATION**

Resolution Authorizing the Issuance, Sale and Delivery of Single Family Mortgage Revenue Bonds, Series 2007D; Authorizing a Trust Indenture, an Origination, Sale and Servicing Agreement, a Bond Purchase Agreement and Continuing Disclosure Agreement, Making Certain Findings and Determinations; Authorizing the Execution of Documents and Instruments Necessary or Convenient to Carry Out a 2007D Texas State Affordable Housing Corporation Single Family Program; and Containing Other Matters Incident and Related Thereto

WHEREAS, the Texas State Affordable Housing Corporation (the "Issuer") has been duly created and organized pursuant to and in accordance with the provisions of the Texas Non-Profit Corporation Act, Article 1396-1.01 et seq. Vernon's Annotated Texas Civil Statutes, as amended and under the authority of Subchapter Y of Chapter 2306, Texas Government Code, as amended (the "Act"), the Issuer is authorized to establish a program to provide individuals and families of low income, as defined in the Act, with adequate, safe and sanitary housing; and

WHEREAS, the Board of Directors of the Issuer has heretofore determined to adopt and implement a 2007D Texas State Affordable Housing Corporation Single Family Program (the "Program") to provide individuals and families of low income meeting the requirements of the Act with low interest home mortgage loans; and

WHEREAS, section 103(a) and section 143 of the Internal Revenue Code of 1986, as amended (the "Code"), provide that the interest on obligations issued by or on behalf of a state or a political subdivision thereof the proceeds of which are to be used to finance owner-occupied residences shall be exempt from federal income taxation if such issue meets certain requirements set forth in said section 143; and

WHEREAS, in order to carry out the Program, the Issuer, Wells Fargo Bank, National Association (the "Trustee"), Countrywide Home Loans, Inc., as Servicer/Administrator (the "Servicer/Administrator") and various commercial lending institutions doing business in the State of Texas (the "Participants"), propose to enter into an Origination, Sale and Servicing Agreement (the "Agreement"), pursuant to which: (a) the Issuer will indicate its intent to issue its bonds in an amount sufficient to enable the Issuer to acquire Government National Mortgage Association mortgage-backed certificates (the "GNMA Certificates"), Fannie Mae mortgage-backed securities (the "Fannie Mae Certificates") and Freddie Mac mortgage-backed securities (the "Freddie Mac Certificates") each backed by certain qualified home mortgage loans made to eligible individuals and families of low income (the "Mortgage Loans"); (b) the Trustee will disburse funds on behalf of the Issuer to acquire the GNMA Certificates, the Fannie Mae Certificates and the Freddie Mac Certificates and to perform certain other duties in connection with the Program; (c) the Servicer/Administrator will be responsible for monitoring the Participants' performance, preparing certain periodic reports, and performing certain other duties, including servicing the Mortgage Loans, in connection with the Program; (d) the Participants will originate and sell the Mortgage Loans; and (e) the Issuer, the Trustee, and the Servicer/Administrator and the Participants will perform certain actions and follow reasonable procedures to ensure compliance with Section 143 of the Code and the Act; and



WHEREAS, the Program has been designed to provide down payment and closing cost assistance to the mortgagors as provided in the Agreement; and

WHEREAS, the Issuer believes that the addition of the down payment assistance feature and the interest rate or rates associated with the Mortgage Loans will make the Program attractive to potential mortgagors; and

WHEREAS, in order to carry out the Program, the Board of Directors of the Issuer has determined that the Issuer shall issue its Single Family Mortgage Revenue Bonds, Series 2007D (the "Bonds"), in the maximum aggregate principal amount of not to exceed \$25,000,000 pursuant to and as generally described in a Trust Indenture prepared in connection with the issuance of the Bonds (the "Indenture"), by and between the Issuer and the Trustee, thereby making funds available for acquiring GNMA Certificates, Fannie Mae Certificates and Freddie Mac Certificates, all under and in accordance with the Constitution and laws of the State of Texas; and

WHEREAS, the Issuer further proposes to sell the Bonds, upon the issuance thereof, to RBC Dain Rauscher Inc., Morgan Keegan & Company, Inc. and any other firms designated in the Bond Purchase Agreement hereinafter defined (collectively, the "Purchaser"), all as referenced in the Bond Purchase Agreement between the Issuer and the Purchaser (the "Purchase Agreement"); and

WHEREAS, there have been presented to the Issuer and its advisors proposed forms of each of the following and all of which comprise a part of this Resolution:

1. the Indenture;
2. the Agreement;
3. the Continuing Disclosure Agreement by and between the Issuer and the Trustee (the "Disclosure Agreement");
4. the Purchase Agreement; and
5. the Preliminary Official Statement relating to the Bonds (the "Preliminary Official Statement").

WHEREAS, the Issuer finds the form and substance of the above-listed documents (hereinafter, collectively the "Bond Documents") to be satisfactory and proper and finds the recitals with regard to the Issuer contained therein to be true, correct and complete and hereby determines to proceed with the issuance and sale of the Bonds to carry out the Program, the execution of such documents and the taking of such other actions as may be necessary and appropriate in connection therewith;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE TEXAS STATE AFFORDABLE HOUSING CORPORATION:

Section 1. Approval of Program. That the Issuer hereby expresses its intent to implement the Program, as described more fully in the Agreement, under which the Trustee, on behalf of the Issuer, will acquire GNMA Certificates, Fannie Mae Certificates and Freddie Mac Certificates, backed by mortgages on residences in the State of Texas owned and occupied by eligible individuals and families of low income.



Section 2. Public Purposes of Program and Bonds. That the Issuer hereby finds, determines, recites and declares that the adoption and implementation of the Program, including the down payment assistance and the interest rate or rates to be borne by the Mortgage Loans, and the issuance of the Bonds will promote the public purposes set forth in the Act, including, without limitation, assisting eligible individuals and families of low income in acquiring and owning adequate, safe and sanitary housing.

Section 3. Issuance, Execution and Delivery of the Bonds. That the issuance of the Bonds in one or more series in the maximum aggregate principal amount of not to exceed \$25,000,000 is hereby authorized, all under and in accordance with the Indenture, and that, upon execution and delivery of the Indenture, the officers of the Issuer are each hereby authorized to execute and attest the Bonds and to deliver the Bonds to the Trustee for authentication all as provided in the Indenture. The Bonds shall mature on the date or dates and in the amounts, shall bear interest and shall be subject to redemption prior to maturity on the date or dates and in the amounts as specified in the Indenture.

Section 4. Approval, Execution and Delivery of the Indenture. That the Indenture, in substantially the form and substance as presented to the Board of Directors at the meeting at which this Resolution was considered, with such changes or additions thereto as may be approved by the Chairperson, Vice Chairperson, President or Executive Vice President of the Issuer (upon the advice of bond counsel to the Issuer), as evidenced by the execution of the Indenture by said Chairperson, Vice Chairperson, President or Executive Vice President, is hereby approved and that the proper officers of the Issuer are each hereby authorized and directed to execute and attest the Indenture and to deliver the Indenture to the Trustee.

Section 5. Approval, Execution and Delivery of the Agreement. That the Agreement in substantially the form and substance of the Agreement presented to the Board of Directors at the meeting at which this Resolution was considered, with such changes or additions thereto as may be approved by the Chairperson, Vice Chairperson, President or Executive Vice President of the Issuer (upon the advice of bond counsel to the Issuer), as evidenced by the execution of the Agreement by said Chairperson, Vice Chairperson, President or Executive Vice President, is hereby approved and that the proper officers of the Issuer are each hereby authorized and directed to execute and attest the Agreement and to deliver the Agreement to the Trustee, the Servicer/Administrator and each Participant.

Section 6. Purchase Agreement and Sale of Bonds. That the sale and delivery of the Bonds to the Purchaser, upon the terms and conditions set forth in the Purchase Agreement between the Issuer and the Purchaser is hereby authorized and approved. The Bonds shall be sold to the Purchaser at the purchase price specified in the Purchase Agreement. The Issuer hereby authorizes the Chairperson, Vice Chairperson, President or Executive Vice President of the Issuer, either individually or in any combination of such officers, for and on behalf of the Issuer, to determine the actual Purchaser and the terms of the Purchase Agreement and to execute and deliver the Purchase Agreement. Upon execution by the parties thereto and delivery thereof, the Purchase Agreement shall be binding upon the Issuer in accordance with the terms and provisions thereof. In addition, the officers of the Issuer are each authorized and directed to execute any necessary certificates evidencing approval of any or all of the matters set forth in this Section 6. In the event it becomes necessary to engage any other investment banking firm or investment banking firms to assist in the sale of the Bonds, the President or the Executive Vice President of the Issuer shall be and hereby is authorized to engage the services of any such investment banking firm or firms.



Section 7. Approval, Execution and Delivery of the Disclosure Agreement. That the Disclosure Agreement, in substantially the form and substance of the Disclosure Agreement presented to the Board of Directors at the meeting at which this Resolution was considered, with such changes or additions thereto as may be approved by the Chairperson, Vice Chairperson, President or Executive Vice President of the Issuer (upon the advice of bond counsel to the Issuer), as evidenced by the execution of the Disclosure Agreement by said Chairperson, Vice Chairperson, President or Executive Vice President, is hereby approved and that the proper officers of the Issuer are each hereby authorized and directed to execute and attest the Disclosure Agreement and to deliver the Disclosure Agreement to the Trustee.

Section 8. Approval, Execution, Use and Distribution of Offering Document. That the Preliminary Official Statement, in substantially the form and substance of the Preliminary Official Statement presented to the Board of Directors at the meeting at which this Resolution was considered, and the changes to the Preliminary Official Statement which will result in the final Official Statement proposed to be delivered in connection with the sale of the Bonds (the "Official Statement"), in substantially the form and substance approved by the Chairperson, Vice Chairperson, President or Executive Vice President of the Issuer (upon advice of bond counsel to the Issuer) as evidenced by their execution thereof are hereby approved and the Chairperson, Vice Chairperson, President and Executive Vice President of the Issuer are each, individually, hereby authorized and directed, for and on behalf of the Issuer, to execute the Preliminary Official Statement and the Official Statement. Delivery to the Purchaser of the Preliminary Official Statement and the Official Statement is hereby authorized.

Section 9. Execution and Delivery of Other Documents. That the officers of the Issuer are each hereby authorized to consent to, accept, execute and attest such other agreements, investment agreements, assignments, bonds, certificates, contracts, documents, instruments, releases, financing statements, offering documents, letters of instruction, written requests and other papers, whether or not mentioned herein, as may be necessary or convenient to carry out or assist in carrying out the purposes of this Resolution, the Program and the issuance, sale and delivery of the Bonds.

Section 10. Power to Revise Form of Documents. That, notwithstanding any other provision of this Resolution, the Chairperson, Vice Chairperson, President, Executive Vice President, Secretary and any Assistant Secretary of the Issuer are each hereby authorized to make or approve such revisions in the form of the Bond Documents as, in the opinion of counsel to the Issuer or bond counsel, may be necessary or convenient to carry out or assist in carrying out the purposes of this Resolution and the Program.

Section 11. Delegation to President or Executive Vice President. The President and Executive Vice President of the Issuer, either individually or jointly, are hereby authorized to approve the principal amount and maturity of the Bonds to be issued pursuant to this Resolution, to establish the interest rate or rates to be borne by the Bonds, provided, however, that the interest rate shall never exceed 15% per annum, and to determine the rate on the Mortgage Loans, provided however, that such rate shall not exceed 10% per annum. The President and Executive Vice President of the Issuer, either individually or jointly, are further authorized to engage the services of consultants that may be needed, in the opinion of such officer, to fully complete the issuance and delivery of the Bonds.

Section 12. Ratification of Certain Prior Actions. That all prior actions taken by or on behalf of the Issuer in connection with the Program and the Bonds, are hereby authorized, ratified, confirmed and approved.



Section 13. Purposes of Resolution. That the Board of Directors of the Issuer has expressly determined and hereby confirms that the issuance of the Bonds and the implementation of the Program accomplish a valid public purpose of the Issuer by assisting individuals and families of low income, as defined in the Act, in the State of Texas to obtain adequate, safe and sanitary housing, thereby promoting the public health, welfare and safety for individuals and families of low income in the State of Texas.

Section 14. Limited Obligations. That the Bonds and the interest thereon shall be limited obligations of the Issuer payable solely from the revenues, funds and assets pledged under the Indenture to secure payment of the Bonds and under no circumstances shall the Bonds be payable from any other revenues, funds, assets or income of the Issuer.

Section 15. Obligations of Issuer Only. That the Bonds and the interest thereon shall not constitute an indebtedness, liability, general, special or moral obligation or a pledge or loan of the faith or credit or taxing power, within the meaning of any constitutional or statutory provision whatsoever, of the State of Texas or any other political subdivision or governmental unit of the State of Texas.

Section 16. Conflicting Prior Actions. That all orders, resolutions, or any actions or parts thereof of the Board of Directors of the Issuer in conflict herewith are hereby expressly repealed to the extent of any such conflict.

Section 17. Authorization of Investment. That the Board of Directors of the Issuer hereby authorizes the Chairperson, Vice Chairperson, President or Executive Vice President of the Issuer to direct the Trustee to invest any funds received by the Trustee pursuant to the Indenture in Investment Securities as defined in the Indenture.

Section 18. Effective Date. That this Resolution shall be in full force and effect from and upon its adoption.

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PASSED, APPROVED AND EFFECTIVE this September 14, 2007.

TEXAS STATE AFFORDABLE HOUSING  
CORPORATION

\_\_\_\_\_  
Chairperson

ATTEST:

\_\_\_\_\_  
Secretary



**RESOLUTION NO. \_\_\_\_**

**TEXAS STATE AFFORDABLE HOUSING CORPORATION**

**RESOLUTION TO AMEND ACCESS TO THE CORPORATION'S PROGRAM FUNDING FOR THE SINGLE FAMILY AFFORDABLE HOMEOWNERSHIP PROGRAM FOR TEXAS AND THE SINGLE FAMILY INTERIM CONSTRUCTION LOAN PROGRAM TO INCLUDE THE CORPORATION'S PROGRAM KNOWN AS THE MULTIFAMILY DIRECT LENDING PROGRAM.**

WHEREAS, Texas State Affordable Housing Corporation (the "Corporation") has been duly created and organized pursuant to and in accordance with the provisions of the Texas Government Code, Chapter 2306, Subchapter Y, Section 2306.551 et seq., as amended (the "Act"), for the purpose of facilitating the provision of housing and making affordable loans to individuals and families of low, very low, and extremely low income; and

WHEREAS, the Board of Directors of the Corporation previously implemented an Alternative Lending Program (also known as "The Affordable Homeownership Program for Texas") (the "Program") pursuant to Resolution 03-11 adopted on December 10, 2003, which provides for down payment assistance to individuals and families that are not able to access traditional lending markets due to prior credit issues or insufficient credit history or both in a total amount not to exceed \$2,000,000 ("Program Funds"); and

WHEREAS, the Board of Directors approved an amendment to the Program to include the Single Family Interim Construction/Land Acquisition Program, pursuant to Resolution 07-03.

WHEREAS, the Board of Directors has determined that it is desirable to amend the Program to permit access to Program Funds by the Corporation's program known as the Multifamily Direct Lending Program; and

WHEREAS, it is deemed necessary and advisable that this Resolution be adopted;

**THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE TEXAS STATE AFFORDABLE HOUSING CORPORATION:**

Section 1. Approval of Amendment to Program. The Corporation hereby approves the amendment of the Program (as amended, the "Amended Program") to allow access to the Program Funds by the Corporation's program known as the Multifamily Direct Lending Program and authorizes the President and Executive Vice President to proceed with the finalization of the terms and conditions of the Amended Program.

Section 2. Contracts with Third Parties. The Corporation is authorized to enter into (and the President and Executive Vice President) contracts with third parties.



Section 3. Use of the Corporation's Funds. The use of remaining Program Funds in order to implement and operate the Amended Program is hereby authorized.

Section 4. Prior Resolution. Resolutions 03-11 and 07-03 shall remain in effect except to the extent modified by this Resolution.

Section 5. Public Purposes of Program. The Corporation hereby finds, determines, recites and declares that the adoption and implementation of the Amended Program will promote the public purposes set forth in the Act, including, without limitation, assisting persons of low, very low, and extremely low income in acquiring and owning adequate, safe, sanitary and affordable housing.

Section 6. Effective Date. This Resolution shall be in full force and effect from and upon its adoption.

Section 7. Severability. If any section, paragraph, clause or provision of this Resolution shall for any reason be held to be invalid or unenforceable, the invalidity or unenforceability of such section, paragraph, clause, or provision shall not affect any of the remaining provisions of this Resolution.

ADOPTED AND APPROVED this 14th day of September, 2007.

**TEXAS STATE AFFORDABLE HOUSING  
CORPORATION**

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Jerry Romero  
Chair, Board of Directors



# **TEXAS STATE AFFORDABLE HOUSING CORPORATION**

## **Risk Management Policy**

**Adopted: \_\_\_\_\_, 2007**

### **1. Corporation**

When permitted by law, approval to enter into interest rate swaps, forward swaps, swap options, basis swaps, caps, floors, collars, cancellation options or any similar hedge, derivative or synthetic instrument on behalf of the Texas State Affordable Housing Corporation (“TSAHC” or “Corporation”) shall be authorized by the Corporation’s Board on a case-by-case basis. For the purposes of this Risk Management Policy, all such transactions are referred to hereinafter as “interest rate management transactions”.

Each resolution to authorize entry into an interest rate management transaction (each a “Resolution”) shall set forth, where applicable, among other things, the notional amount, security, payment, and other financial terms of the interest rate management transaction between the Corporation and qualified swap counterparties (“Counterparties”). The Resolution shall also approve, as to form, the operative agreements, contracts, and other documents to be used in the interest rate management transaction. Counterparties shall satisfy the requirements of Section 6.1 of this Risk Management Policy. Each Resolution shall specify the appropriate Corporation officials authorized to make modifications to or finalize the terms of the interest rate management transactions contemplated, within parameters established by the resolution. In the event of a conflict between a resolution or the documentation effectuating an interest rate management transaction and this Risk Management Policy, the terms and conditions of the resolution or such documentation shall control.

Each Resolution shall set forth a finding that it is, or upon certain circumstances, prudent and advisable for the Corporation to enter into the related interest rate management transaction and that entry into such interest rate management transaction is consistent with this Risk Management Policy.

### **2. Purpose**

Interest rate management transactions can be an integral part of the Corporation’s asset/liability and debt management strategy. By utilizing interest rate management transactions, the Corporation can expeditiously take advantage of market opportunities to reduce costs. Interest rate management transactions may allow the Corporation to actively manage asset and liability interest rate risk, balance financial risk and achieve debt management goals and objectives through synthetic fixed rate and variable rate financing structures. The Corporation shall not enter into interest rate management transactions for speculative purposes.



### **3. General Guidelines for Interest Rate Management Transactions**

The Corporation shall include the following guidelines in the evaluation and recommendation of interest rate management transactions:

- **Legality:** the Corporation, utilizing advice of counsel, must first determine that the proposed contract fits within the legal constraints imposed by applicable law, this Risk Management Policy, the Corporation's Articles and By-Laws as amended and supplemented, the Corporation resolutions and other contracts.
- **Goals:** In the Resolution, the Corporation will clearly state the goals to be achieved through the interest rate management transaction and may adopt execution parameters consistent with the goals.
- **Rating Agencies:** The proposed interest rate management transaction shall not have an adverse impact on any existing Corporation credit rating. The interest rate management transaction also shall conform to outstanding covenants made to credit enhancers, liquidity providers, surety providers, bondholders and other creditors. All interest rate management transactions should be, but are not required to be, discussed with rating agencies then maintaining ratings on the Corporation debt prior to execution.
- **Tenor:** the Corporation shall determine the appropriate termination date for an interest rate management transaction on a case-by-case basis. However, in no circumstance may the termination date of an interest rate management transaction between the Corporation and a Counterparty extend beyond the final maturity date of the underlying debt or the maturity date of the referenced investments.
- **Impact on Variable Rate Capacity:** The impact of the interest rate management transaction on the Corporation's variable rate debt capacity must be quantified prior to execution so as not to hinder the Corporation's ability to issue variable rate debt or commercial paper.
- **Explanation of Risks and Benefits:** The provider of any interest rate management agreement shall provide, as requested, analysis necessary for the Corporation staff, in consultation with the Corporation financial advisor, to explain the costs, benefits, risks and other considerations regarding each particular interest rate management transaction to the Corporation's Board as a part of the approval process for the related Resolution.
- **Debt Constraints:** The interest rate management transaction shall not contain terms that restrict the ability of the Corporation to comply with additional bonds tests or anti-dilution tests and shall not create cross defaults to the Corporation debt below prescribed threshold amounts.
- **Accounting Implications:** the Corporation shall employ appropriate staff or consultant with responsibility and knowledge suitable for monitoring interest rate management transactions. Before entering into an interest rate management transaction, the



Corporation staff shall analyze and prepare for the accounting impact of the interest rate management agreement on the Corporation's financial statements.

- Exit Strategy: The mechanics for determining termination values at various times and upon various occurrences must be explicit in the interest rate management transaction, and the Corporation should obtain estimates from its Financial Advisor and/or the Counterparty of the potential termination costs which might occur under various scenarios, and plan for how such costs would be funded.

#### **4. Basis of Award**

In general, the Corporation should enter into interest rate management transactions through a competitive or a negotiated bid process conducted in conformity with the Corporation Procurement Policy. However, the Corporation may seek to reward firms that present innovative and financially beneficial transactions to the Corporation and reserves the right to award all or a percentage of a particular interest rate management transaction to a Counterparty based upon the nature of the initiative demonstrated by the Counterparty in proposing the swap to the Corporation. With the prior approval of the Corporation's Board, the Corporation may negotiate with Counterparties for unsolicited interest rate management transactions and/or proprietary swap products. The Corporation's Board and staff shall determine the procurement method for each interest rate management transaction. For situations in which the Corporation would like to a reward a particular firm or firms for initiative or innovation, or wishes to achieve diversification of its Counterparty exposure, the Corporation's Board and staff may select, but not be limited to, one of the following basis' for award:

- Allow such firm or firms, if not submitting the best bid, to amend its bid or their bids to match the best bid, and by doing so, be awarded up to a specific percentage of the transaction.
- To encourage competition, the second and/or third place bidders may be allowed to contract for a specific portion of the notional amount provided its bid is or their bids are no greater than a pre-specified spread from the best bidder in a proportional manner as specified in bidding parameters.
- In certain situations the Corporation may elect to negotiate a particular swap transaction.

In the case of a negotiated transaction, the Corporation's Board (i) shall set parameters; (ii) may delegate to the staff, in consultation with the financial advisor, the Corporation to negotiate the price; and (iii) shall arrange with the financial advisor for delivery of a "fair pricing opinion." The Counterparty shall disclose to the Corporation payments to third parties regarding the execution of any swap or derivative contract.

#### **5. Management of Interest Rate Transaction Risk**

Certain risks will be created as the Corporation enters into interest rate management transactions with Counterparties. Some interest rate management transaction risks, in general, are described



in Exhibit A. In order to manage the associated risks, guidelines and parameters for certain risk categories are as follows:

### 5.1 Counterparty Risk

The risk of Counterparty default can be reduced by limiting interest rate management transactions between the Corporation and any single Counterparty. In addition, the Corporation may mitigate Counterparty risk by requiring the Counterparty to post collateral on a mark-to-market basis, in accordance with the guidelines described in Section 6.3 – Collateral Requirements.

### 5.2 Termination Risk

*5.2.1 Optional Termination:* the Corporation shall have the right to optionally terminate an interest rate management transaction at any time over the term of the interest rate management transaction (elective termination right) at the then-prevailing market value of the swap. In general, exercise of the elective termination right should produce a benefit to the Corporation, either through receipt of a payment from a termination, or if a termination payment is made by the Corporation, in conjunction with a conversion to a more beneficial (desirable) financial arrangement for the Corporation. Termination value shall be readily determinable by one or more independent counterparties, who may assume the interest rate management agreement obligations of the Corporation in the event of an assignment.

A Counterparty shall not have the elective right to terminate an interest rate management transaction unless a termination option has been priced into the terms of the interest rate management transaction.

The Corporation should, but is not required to, explore the economic viability of a unilateral termination provision without being exposed to a termination payment.

*5.2.2 Credit Related Termination:* Upon the occurrence of a Counterparty default, the Corporation may be required to make a termination payment to the Counterparty. It is the intent of the Corporation not to make a termination payment to a Counterparty failing to meet its contractual obligations unless the Corporation is contractually obligated to do so. When a dealer for the interest rate management agreement is the Affected Party (the defaulting party), as defined in the ISDA Master Agreement, the interest rate management transaction may set forth a suitable time period during which the Corporation may evaluate whether it is financially advantageous for the Corporation to obtain a replacement Counterparty to avoid making a termination payment.

The market value of each interest rate management transaction (including termination costs) shall be calculated by the financial advisor and provided at least semi-annually as information to the Corporation's Board and staff in accordance with the provisions outlined in Section 8.



Reporting Requirements of this policy to monitor the interest rate management transaction's value and in order to implement an appropriate exit strategy in a timely manner, if required.

### 5.3 Amortization Risk (Term)

The Corporation shall consider the slope of the swap curve, the marginal change in swap rates from year to year along the swap curve, termination value and the impact that the term of the interest rate management transaction has on the overall exposure of the Corporation in determining the appropriate term of any interest rate management transaction. Each interest rate management transaction shall reflect as closely as possible the amortization of the underlying debt or shall be in place for no longer than the period of time that matching assets are available to hedge the transaction.

### 5.4 Liquidity Risk

The Corporation should consider if the swap market is sufficiently liquid (i.e., if enough potential Counterparties participate actively in the market to assure fair pricing) for the type of interest rate management transaction being considered and the potential ramifications of an illiquid market for such types of interest rate management transactions. There may not be another appropriate party available to act as an offsetting Counterparty. The Corporation may enter into liquidity or credit agreements with liquidity providers and/or credit enhancers to protect against this risk

### 5.5 Basis (Index) Risk (including Tax Reform Risk)

Any index chosen as part of an interest rate management transaction shall be a recognized market index, including but not limited to The Bond Market Association Municipal Swap Index (BMA) or London Interbank Offering Rate (LIBOR).

The Corporation shall not enter into leveraged interest rate management transactions without thoroughly analyzing the risks associated with the enhancement. The tax reform risk and impact to the Corporation of each interest rate management transaction shall be detailed through the Counterparty disclosure requirements outlined in Section 7 – Form of Interest Rate Management Transactions and Other Documentation

### 5.6 Bankruptcy Risk

The Corporation's counsel shall disclose to the Corporation the bankruptcy risks and issues associated with the type of Counterparty and interest rate management transaction chosen. Additionally, the Corporation's counsel shall disclose to the Corporation the bankruptcy issues associated with the method proposed for the posting of collateral.

## **6. Counterparty Approval Guidelines**

### 6.1 Eligibility



The Corporation shall enter into interest rate management transactions only with qualified Counterparties. To qualify as a Counterparty under this policy, at the time of entry into an interest rate management transaction, the selected swap provider(s) (i) shall be rated at least AA-/Aa3/AA- by at least two of the three nationally recognized credit rating agencies (Standard & Poor's, Moody's, and Fitch Ratings, respectively) and shall have a minimum capitalization of \$50 million, (ii) shall maintain a rating of at least BBB-/Baa3/BBB- by two of the three nationally recognized credit rating agencies and shall provide a credit support annex ("CSA") to the schedule to the ISDA master agreement that shall require such party to deliver collateral for the benefit of the Corporation (a) that is of a kind and in such amounts as are specified therein and which relate to various rating threshold levels of the Counterparty or its guarantor, from AA-/Aa3/AA- through BBB-/Baa3/BBB- and (b) that, in the judgment of the Chief Executive Officer or Chief Financial Officer in consultation with the Corporation's financial advisor, is reasonable and customary for similar transactions, taking into account all aspects of such transaction including without limitation the economic terms of such transaction and the creditworthiness of the Counterparty or, if applicable, its guarantor; or (iii) shall obtain credit enhancement from a provider with respect to its obligations under the transaction that satisfies the requirements of clause (i) of this paragraph. The Corporation shall not enter into an interest rate management transaction with a firm that does not qualify as a Counterparty consistent with the foregoing guidelines.

The Counterparty must make available audited financial statements and rating reports of the Counterparty (or any guarantor or credit enhancer, as the case may be), and, in accordance with industry accepted accounting practices, must identify the amount and type of derivative exposure, and the net aggregate exposure to all parties (the Corporation and others), along with relevant credit reports at the time of entering into an interest rate management transaction and annually thereafter unless the Counterparty, guarantor or credit enhancer is under credit or regulatory review and in that case immediately upon notice by the appropriate agencies to the entity.

## 6.2 Swap Counterparty Exposure Limits and Transfer

In order to limit and diversify the Corporation's Counterparty risk, and to monitor credit exposure to each Counterparty, the Corporation may not enter into an interest rate management transaction with a Counterparty if the following exposure limits are reached per Counterparty:

- The maximum notional amount for interest rate management agreement between a particular Counterparty (and its unconditional guarantor, if applicable) and the Corporation shall not exceed an amount that would cause an adverse impact on the Corporation's existing credit rating. Notional amounts for fixed-to-floating interest rate management agreements may be used to "offset" the Counterparty risk on the notional amounts for floating-to-fixed interest rate management agreements, or vice versa.



- If the agreement eliminates the Corporation's ability to transfer the interest rate management agreement to an acceptable alternative Counterparty, i.e. eliminates the Corporation's right to assign the agreement, then the Corporation should have the right, but not the obligation, to terminate the interest rate management agreement without cost to the Corporation.
- If the maximum notional limit for a particular Counterparty is exceeded solely by reason of merger or acquisition involving two or more counterparties, the Corporation shall expeditiously analyze the exposure, but shall not be required to "unwind" existing interest rate management transactions unless the Corporation determines such action is in its best interest, given all the facts and circumstances.
- If the exposure limit is breached for a Counterparty, then the Corporation shall:
  - Conduct a review of the exposure limit calculation of the Counterparty;
  - Determine if collateral may be posted to satisfy the exposure limitation; and
  - On a monthly basis or as requested, report the net exposure and its risk implications to the Corporation's Board.
  - The Corporation shall avoid entering into contracts with derivative product companies ("DPCs") that are classified as "terminating" DPC's by the rating agencies.

### 6.3 Collateral Requirements

Collateral posting requirements between the Corporation and each swap Counterparty should not be unilateral in favor of the Counterparty. As part of the interest rate management transaction, the Corporation or the Counterparty may require that collateral to secure any or all interest rate management agreement payment obligations be posted. Collateral requirements shall be subject to the following guidelines:

- Collateral requirements imposed on the Corporation should not be accepted to the extent they would impair the Corporation's existing operational flow of funds, the Corporation should seek other remedies to satisfy counterparty requirements.
- Each Counterparty shall be required to provide a form of a Credit Support Annex should the credit rating of the Counterparty fall below the "A-/A3/A-" category by at least two of the nationally recognized rating agencies.
- A list of acceptable securities that may be posted as collateral and the valuation of such collateral shall be determined and mutually agreed upon during negotiation of the interest rate management transaction with each Counterparty.
- The market value of the collateral shall be determined on either a daily, weekly, or monthly basis, as provided in the documentation for the interest rate management transaction. At least semi-annually, the Corporation's financial advisor shall provide collateral verification relating to collateral type, amount, and market value.
- Failure to meet collateral requirements shall be a default pursuant to the terms of the interest rate management transaction.
- The Corporation and each Counterparty may provide in the supporting documents to the interest rate management transaction for reasonable threshold limits for the initial deposit and for increments of collateral posting thereafter.



- The interest rate management transaction may provide for the right of assignment by one of the parties in the event of certain credit rating events affecting the other party. The Corporation (or the Counterparty) shall first request that the Counterparty (or the Corporation) post collateral, or provide a credit support facility. If the Counterparty (or the Corporation) does not provide the required credit support, then the Corporation (or the Counterparty) shall have the right to assign the agreement to a third party acceptable to both parties and based on terms mutually acceptable to both parties. The credit rating thresholds to trigger an assignment shall be included in the supporting documents.

## **7. Form of Interest Rate Management Transactions and Other Documentation**

Each interest rate management transaction shall contain terms and conditions as set forth in the International Swap and Derivatives Association, Inc. (“ISDA”) Master Agreement and such other terms and conditions included in any schedules, confirmations and credit support annexes as approved in accordance with the Resolution pertaining to that interest rate management transaction.

In negotiated interest rate management transactions the Counterparty and Corporation’s financial advisor shall each provide a disclosure memorandum that shall include an analysis, by the Counterparty and the Corporation’s financial advisor, of the risks and benefits of the transactions, with amounts quantified. This analysis should include, among other things, a matrix of maximum termination values within the parameters and assumptions given by the Counterparty over the life of the interest rate management transaction. The disclosure memorandum shall become a part of the official transcript for the interest rate management transaction. In negotiated transactions, the Counterparty shall also affirm receipt and understanding of the Corporation’s Risk Management Policy, and shall further affirm that the contemplated transactions fit within the Risk Management Policy as described.

Modification of Interest Rate Management Agreements: Each Resolution should provide specific approval guidelines for the interest rate management transactions to which it pertains. These guidelines may provide for modifications to the approved interest rate management transactions, provided such modifications do not extend the average life of the term of the interest rate management agreement, increase the overall risk to the Corporation resulting from the interest rate management agreement, or increase the notional amount of the interest rate management agreement beyond pre-approved levels. The Resolution shall further designate which Corporation officers shall be authorized to cause such modifications.

Aggregation of Interest Rate Management Agreements: Unless the Resolution states otherwise, the approval requirements set forth in each Resolution are applicable for the total notional amount of transactions executed over a consecutive three-month period for a given security or credit. Therefore, the notional amount of interest rate management transactions including the average life of the interest rate management transactions over a consecutive three-month period are considered in total (net of the notional amount of an interest rate management agreement reversal) to determine what approval is required pursuant to a particular Resolution.



## **8. Reporting Requirements**

On a semi-annual basis, or as required by the Board, the Corporation staff shall be required to report in writing the status of all interest rate management or derivative transactions to the Corporation's Board. Any such report shall include, but not be limited to, the following information:

1. All changes to interest rate management transactions or new interest rate management transactions entered into by the Corporation since the last report to the Board shall be noted.
2. Status reports shall provide the marked to market value of each of the Corporation's interest rate management transactions.
3. Status reports shall describe the net impact to the Corporation of 50 and 100 basis point movements (up or down) with the appropriate interest rate management index or curve.
4. For each Counterparty, the Corporation staff shall provide the total notional amount of each interest rate management transaction, the remaining average life of each interest rate management transaction, the term of each interest rate management transaction, the total to enter into each interest rate management transaction, and the remaining term of each interest rate management transaction.
5. The report shall include the credit ratings of each Counterparty, and those of any credit enhancer insuring or guaranteeing interest rate management payments.
6. The report shall list collateral posted by a Counterparty, if any, and by the Corporation, if any, detailed by interest rate management transaction and in total by Counterparty. All collateral information shall be accompanied by the financial advisor's collateral verification report.
7. The report shall include the market movement or rating change required to trigger a collateral posting requirement.
8. The report shall include a summary of each interest rate management transaction including but not limited to the type of interest rate management agreement, the rates and dollar amounts paid by the Corporation and received by the Corporation, specific terms, and other information of interest to the Board.
9. The report shall indicate any default or rating change by a Counterparty to the Corporation, and the results of the default including the financial impact to the Corporation, if any.
10. The report shall include a summary of any planned interest rate management transactions and the impact of such interest rate management transactions on the Corporation's asset / liability management program.
11. The report shall include the amount of interest rate management transactions, both in notional amount and in terms of net mark-to-market exposure, available to the Corporation as of the end of each reporting period.
12. In accordance with Texas State law, the governing body of the Corporation shall appoint an officer of the Corporation to provide an annual written report to the governing body of the Corporation which discusses the following items:
  - i. The terms of the outstanding interest rate management transactions.
  - ii. State



1. the fair value of each interest rate management transaction,
  2. the value of any collateral posted to or by the Corporation under the interest rate management transactions with each counterparty at year's end, and the cash flows of each interest rate management transaction.
- iii. Identify the counterparties to each interest rate management transaction, any guarantor of such counterparties, and the credit ratings of each counterparty and guarantor.
  - iv. State whether the continuation of the interest rate management transactions complies with the Corporation's Risk Management Policy.



**Texas State Affordable Housing Corporation**  
**Draft Operating Budget**  
*Fiscal Year 2008*

	<b><u>2008</u></b> <b><u>Budget</u></b>
<b>Revenues</b>	
Servicing Revenue, Net of Subservicer Fees	553,000
Multifamily Revenue	105,000
Federal Home Loan Bank Note Income	119,000
Asset Oversight Revenue	592,000
Single Family	315,000
Investment Revenue	370,000
Grants & Donations	15,000
	<u>2,069,000</u>
 <b>Expenditures</b>	
Salaries & Payroll Related Expenditures	1,067,000
Professional Services - Legal, Audit & IT	381,000
Office & Equipment Lease	136,000
Travel & Meals	78,000
Interest on FHLB/Wells Fargo CDC Notes	100,900
Sponsorships & Grants	6,700
Marketing	25,000
Insurance	29,000
Professional Dues & Training	14,000
Communication	13,300
Bank Fees & Charges	10,000
Office Supplies	5,000
Publications, Subscriptions & General Office Expense	5,300
Freight, Delivery & Postage	6,300
Furniture, Equipment, & Software	29,700
Printing	3,000
	<u>1,910,200</u>
	<u>158,800</u>



**Texas State Affordable Housing Corporation**  
**Draft Operating Budget**  
*Fiscal Year 2008*

Check Point for Melinda

Check to make sure that note references by each number match the note explaining the budget line



**Texas State Affordable Housing Corporation**  
**Draft Operating Budget**  
*Fiscal Year 2008*



**Texas State Affordable Housing Corporation**  
**Draft Operating Budget**  
*Fiscal Year 2008*

ie item.





The Texas State Affordable Housing Corporation is requesting proposals for audit, tax and accounting consulting services for the three fiscal years ending August 31, 2007, 2008 and 2009.

## **I. Background of Corporation**

The Texas State Affordable Housing Corporation ("Corporation") was incorporated in May 1994 under the Texas Non-Profit Corporation Act, Article 1596-1.0 et seq., Vernon's Annotated Texas Civil Statutes, as amended. The Corporation does not receive State appropriated funding. Under Government Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, the Corporation is a component unit of the State of Texas for financial reporting purposes.

The Corporation's primary purpose is to facilitate the provision of affordable housing for low income Texans who do not have comparable housing options through conventional financial channels. A five-member board of directors appointed by the Governor with the advice and consent of the Senate oversees the business of the Corporation. All operations of the Corporation are conducted within the State of Texas and corporate offices are located in Austin, Texas. Enabling legislation, as amended, may be found in the Texas Government Code, Chapter 2306, Subchapter V, Sections 2306.551 et seq.

The Corporation is organized, operated and administered as a non-profit organization in accordance with Section 501(c)(3) of the Internal Revenue Code.

The Corporation engages in the following primary types of business.

1. Loan Servicing
2. Asset Oversight & Compliance Monitoring
3. Issuance of Tax Exempt Single Family Mortgage Revenue Bonds
4. Issuance of Tax Exempt Multifamily Mortgage Revenue Bonds
5. Multifamily Direct Lending

## **II. Scope of Services – the Corporation is requesting proposals for:**

- A. Performance of the annual financial audit for the three (3) fiscal years ending August 31, 2007; August 31, 2008 and August 31, 2009. The audits should be conducted in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Consolidated Audit Guide for Audits of HUD Programs*.

All audit field work must be completed and the final audit report issued no later than December 7th of each year. Draft financial statements and footnotes must be completed by November 20<sup>th</sup> of each year for submission to the Comptroller of Public Accounts.

- B. Performance of review for compliance with the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) using the guidelines provided by the Texas State Auditor's Office for the two (2) fiscal years ending August 31, 2007 and August 31, 2008.
- C. Preparation of the Corporation's annual Form 990 tax return for the three (3) fiscal years ending August 31, 2007; August 31, 2008 and August 31, 2009.
- D. Provision of consultation and technical assistance on general accounting and tax issues.



**III. Proposal Format and Content** - Firms are directed to organize their proposals as follows:

- A. Proposal information should be numbered and sequentially ordered so that it corresponds to the numbering and order of this RFP.
- B. Narrative answers to questions are to be limited to one side of a single 8 1/2 by 11 typed page.
- C. Each page must be numbered consecutively and identify the firm's name.
- D. All proposals must contain the following information and/or address the following issues:
  1. A cover letter stating the name of the firm, address, telephone number and contact person.
  2. A description of the firm's understanding of the work to be done.
  3. Evidence of the firm's ability to provide the specified services in a professional and timely manner, including:
    - a. Documentation that the firm is properly licensed for public practice in the State of Texas.
    - b. Evidence of the firm's experience in performing financial audits of non-profit organizations and audits in compliance with *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Consolidated Audit Guide for Audits of HUD Programs*.
  4. Describe the proposed audit team in terms of job position within the firm.
  5. List names of firm member(s) who will direct the audit including educational background and professional licenses held.
  6. Describe the level of assistance that will be expected from Corporation personnel.
  7. State and describe the type of the firm's most recent peer review and provide a copy of the most recent peer review report.
  8. Provide at least three client references, preferably non-profit organizations.
  9. Include a projected time-line covering major audit events, including delivery of the final audit report.
  10. A statement of the firm's affirmative action policy.
  11. If the firm does not desire proprietary information in its proposal to be disclosed, the firm must identify all proprietary information in the proposal, at the time the proposal is submitted. If a firm fails to identify information as proprietary, the firm agrees by submission of its proposal that information contained therein is nonproprietary and may be made available upon public request.
  12. Provide a detailed cost proposal, including estimated hours and hourly rates by level of personnel. Also include other itemized direct costs, printing and out-of-pocket costs and any anticipated travel costs. Rates for nonrecurring work should also be itemized.



This RFP does not commit the Corporation to award a contract to an Offeror or to pay any costs incurred in the preparation or mailing of an Offeror's Response or in participating in this RFP process. In addition, the Corporation reserves the right to accept or reject any or all Responses received as a result of this RFP, to obtain information concerning any or all Offerors from all sources, and to request an oral presentation from any or all Offerors. In addition, the Corporation expressly reserves the right to negotiate with some, all, or none of the Offerors with respect to any term or terms of the responses or contracts.

Responses that do not comply with the conditions specified in this RFP may be rejected. The Corporation also may reject a Response that does not include all requested information.

PLEASE DELIVER 2 COPIES TO:

TEXAS STATE AFFORDABLE HOUSING CORPORATION  
1005 CONGRESS AVENUE, SUITE 500  
AUSTIN, TX 78701  
ATTN: MELINDA SMITH, CPA  
CHIEF FINANCIAL OFFICER  
512-477-3555, EXTENSION 420

**RESPONSE DEADLINE**

**AUGUST 3, 2007  
5:00 P.M.**



Proposal for Audit, Tax, and Accounting Services

Prepared For -

TEXAS STATE AFFORDABLE HOUSING CORPORATION

For The Years Ended August 31, 2007, 2008 and 2009

Submitted by -

Donald C. Mikeska of  
MIKESKA, MONAHAN & PECKHAM LLP  
100 Congress Avenue, Suite 990  
Austin, Texas 78701  
(512) 476-1040







July 16, 2007

Melinda Smith, CFA, Chief Financial Officer  
Texas State Affordable Housing Corporation  
1005 Congress Avenue, Suite 500  
Austin, Texas 78701

Dear Ms. Smith:

Mikeska, Monahan & Peckham LLP, appreciates the opportunity to propose on the audit, tax, and accounting services requested by you and to present our credentials to serve as independent public accountants for Texas State Affordable Housing Corporation. Our firm appreciates the services that Texas State Affordable Housing Corporation provides to the community and it would be a pleasure to provide our services to your organization. You will be an important client to our firm and you can always expect to receive the highest level of quality service from our team of professionals.

#### Our Background and Philosophy

Mikeska, Monahan & Peckham LLP was formed in 1986 by Donald C. Mikeska, Kathleen A. Monahan, and Susan Z. Peckham. Each of us had a strong national CPA firm background and a desire to create a premier Austin public accounting firm. A profile of each principal is attached.

Our firm's philosophy is to blend our "Big Four" technical background with the benefits of being locally owned and directed. We believe these benefits include continuity of partners and staffing on your job; quick response time to your questions and decisions required on our part; a personable staff that is familiar with almost all of our clients; and an understanding of the practical problems and issues that may arise in a business. We provide quality service to individuals, businesses, and not-for-profit entities with an unsurpassed degree of partner involvement.

Our firm provides our clients with personal attention and proven expertise in a comprehensive range of services and industries. The firm's employees are young, enthusiastic, and strive for excellence in their work. Quick response time to client needs, meeting deadlines, technical competence, and a friendly, personable staff has given our firm its quality reputation.

#### Technical Component

The scope of our services will be sufficient to enable us to express an opinion on the financial statements of Texas State Affordable Housing Corporation for the years ending August 31, 2007, 2008, and 2009. Our audits will be conducted in accordance with auditing standards generally accepted in the United States; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of the *Consolidated Audit Guide for Audits of HUD Programs*; and will include tests of the accounting records of Texas State Affordable Housing Corporation and other procedures we consider necessary to enable us to express an unqualified opinion that the financial statements are fairly presented, in all material respects, in conformity with generally accepted accounting principles and to report on the Organization's computation of the adjusted HUD new worth and schedule of HUD insurance requirements. We will also perform a review for compliance with the Texas Public Funds Investment Act for the fiscal year ending August 31, 2007 and 2009.

In addition, we will prepare the Form 990, Return of Organization Exempt from Income Tax for Texas State Affordable Housing Corporation for 2007, 2008, and 2009.



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Texas State Affordable Housing Corporation  
July 16, 2007  
Submitted by: Mikeska Monahan & Peckham LLP

Our audit approach will be designed based on the results of our preliminary planning activities and risk assessment. Risk assessment is based upon a thorough understanding of the system of internal accounting control, identification of specific concerns of management, overall materiality and its impact on the financial statements, and inherent risk of the operations.

We will gain an understanding of your organization through the use of preliminary analytical procedures, by obtaining an overview of the accounting system and by assessing the control environment. The results of these efforts will be an audit plan, which will combine substantive auditing procedures, direct examination of supporting documentation, physical observation of inventory and fixed assets, and analytical review procedures to provide us with the ability to express an opinion on your financial statements.

#### Management Component

1. Mikeska Monahan & Peckham LLP (MMP) is currently licensed to practice public accounting in the State of Texas and is a member of the American Institute of Certified Public Accountants. All professional employees of MMP are certified or are working toward certification.
2. MMP has extensive experience in performing audits of governmental agencies as well as nonprofit organizations, which receive federal support. A sample listing of clients follows:

	<u>Contact/Phone Number</u>
Advocacy, Inc. (Since September 1991)	Mary Faithful, Executive Director (512) 454-4816
Bat Conservation International (Since May 1997)	Linda Moore, Director of Administration (512) 327-9721
Nevada Disability Advocacy & Law Center (Since September 1995)	Jack Mayes, Executive Director (800) 992-5715

Mikeska Monahan & Peckham LLP is owned 66 2/3% by women and is registered with certain local governmental agencies as a disadvantaged business enterprise ("DBE"). The selection of our firm should qualify toward any DBE goals specified under state and federal assistance programs.

3. Our firm is not currently nor has it ever been under the terms of a public or private reprimand by the Texas State Board of Public Accountants and/or licensing boards of other states.
4. The audit team shall consist of one audit partner (Don Mikeska), one tax partner (Susan Peckham), and an associate accountant (to be determined).
5.
  - a. Don Mikeska, CPA (1972)  
Graduated University of Texas at Austin - BBA Accounting (1970)
  - b. Susan Peckham, CPA (1977)  
Graduated University of Texas at Austin - BBA Accounting (1975) Master's Degree in Taxation (1976)



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Texas State Affordable Housing Corporation

July 16, 2007

Submitted by: Mikoska Morahan & Peckham LLP

During the past two years, Mr. Mikoska has completed over 80 hours of continuing professional education related to governmental and nonprofit accounting and auditing and OMB Circular A-133. These courses include "Audit Requirements of OMB Circular A-133", "Governmental/Nonprofit -- A-133 Update", "Accounting and Auditing Standards Update", "Governmental & Nonprofit Accounting and Auditing Update", and "Annual Yellow Book Update and Review".

6. Our fee estimate is prepared assuming that your employees will type all cash, accounts receivable, accounts payable, and other confirmations we request and will locate any invoices selected by us for testing. In addition, we will request that your employees prepare certain analysis worksheets and certain forms documenting the accounting system and the control system of Texas State Affordable Housing Corporation to be used during our examination.

7. All CPA firms who conduct audits of financial statements are required to be reviewed by their peers for quality control and to assure conformity with our professional standards. We have recently been reviewed and received an excellent opinion. The firm of Canine, Chumney & Co. performed our "Quality Review" and their opinion letter is enclosed for your review.

8. Client References:

- |    |   |                           |
|----|---|---------------------------|
| a. | Mary Faithfull, Executive Director<br>Advocacy Incorporated               | Phone #<br>(512) 454-4318 |
| b. | Linda Moore, Director of Administration<br>Bat Conservation International | Phone #<br>(512) 327-9721 |
| c. | Jack Mayes, Executive Director<br>Nevada Disability Advocacy & Law Center | Phone #<br>(888) 349-3843 |

9. The projected time line for the major events covered by this proposal is as follows:

Start Field Work	October 16, 2007
End Field Work	November 20, 2007
Delivery Dates:	
Report Draft(s)	November 20, 2007
Final Report	December 7, 2007
Management Letter	November 20, 2007
Form 990 Tax Return	January 15, 2008

The above dates represent our best estimate at this time. If we are engaged as your independent auditors, we will discuss the time schedule with you and include it in our engagement letter. We cannot be responsible for delays that are out of our control.

10. MMCP is an equal employment opportunity employer. The firm consists of five female and three male employees.

	Male	Female
Management	1	2
Professional Staff	1	2
Administrative	0	2



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Texas State Affordable Housing Corporation

July 16, 2007

Submitted by: Mikuska Monahan & Peckham LLP

11. Not Applicable

12.

Professional Fees

Our fees for the above described audit services will be based on the actual time spent at our discounted standard hourly rates. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Partners normally bill out at \$170 per hour, supervisor/managers bill out at \$100 per hour and associate accountants bill out at \$85 per hour. Our invoices for the fees will be rendered each month as work progresses and are payable on presentation. We anticipate that fees for the services proposed above shall not exceed the following amounts:

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Audit of Financial Statements	\$45,500	\$47,000	\$49,000
HUD Audit	3,500	4,500	5,000
Form 990 Tax Return	4,000	4,500	5,000

The above estimates are based upon the following time budget and represent our standard rates

<u>Personnel</u>	<u>Hours</u>
Audit Partner (DCM)	200
Tax Partner (SZL)	10
Associate Accountant	200

In addition to the above fees, we will bill you for direct out-of-pocket costs for travel, lodging, and report printing. These amounts will be discussed with you and agreed upon prior to the engagement.

If requested, we will provide consultation and technical assistance to Texas State Affordable Housing Corporation at our standard hourly rates plus direct out-of-pocket costs.

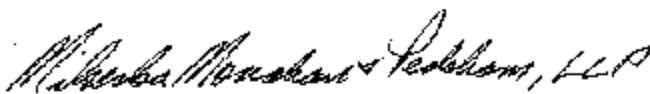
All of the above fees for audit, tax, consultation, and technical assistance are fair and reasonable and represent our normal billing rates for similar services.

Engagement Letter

Thank you for considering our firm for your audit and tax needs. If you wish to engage our firm for the above services, we will be pleased to submit to you an engagement letter which will explain the engagement in greater detail and set out the above fees. Please contact us if you have any questions or if you want to discuss this matter further.

This proposal is valid for a period of 30 days subsequent to the RFP closing date.

Sincerely,



MIKESKA MONAHAN & PECKHAM LLP



**MIKESKA, MONAHAN & PECKHAM, LLP**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
**PROFILE OF THE FIRM**

**MIKESKA, MONAHAN & PECKHAM, LLP** is a full service certified public accounting firm. We strive to serve Austin and the surrounding communities with personal attention and proven expertise in a comprehensive range of services, including:

- Audits of Financial Statements
- Tax Consultation and Planning
- Tax Preparation and Compliance (Individuals, Estates, Trusts, Partnerships, & Corporations)
- General Business Consulting
- Estate Planning
- Accounting and Computer Services
- Financial Statement Compilation or Review
- Litigation Support on Accounting and Tax Issues

The firm has a large client base requiring diverse auditing, tax, and accounting services. The majority of clients are medium-sized, closely held businesses, individuals with complex tax and business matters, and non-profit organizations. **MIKESKA, MONAHAN & PECKHAM, LLP**, takes pride in providing our clients with technical individualized services. Quick response time to client needs, technical competence, and a friendly, personable staff have given our firm its quality reputation in Austin.

The firm principals are **DONALD C. MIKESKA, CPA**, partner in charge of auditing and accounting services; **KATHLEEN A. MONAHAN, CPA**, concentrating in tax service for partnerships, estates, trusts and business consultation; and **SUSAN Z. PECKHAM, CPA**, emphasizing corporate strategy and business consultation. All three principals also provide tax planning and business services for individuals.

Following are brief profiles of the principals and associates of Mikeska, Monahan & Peckham, LLP.

**DONALD C. MIKESKA, CPA**

Don Mikeska is the partner in charge of auditing and accounting services for the firm. A graduate of the University of Texas at Austin, he has over thirty-six years of public accounting experience including "Big Four" experience. His professional experience includes audits of banks, pension plans, construction companies, hospitals, non-profit organizations, governmental entities, manufacturing concerns, real estate companies, service organizations, wholesalers, and retailers. As a former partner in a large local CPA firm in Houston, he was the technical audit partner and had responsibility for the review of all audit engagements. Don has a good working knowledge of computer and accounting systems. With his technical knowledge and extensive business experience, Don can efficiently organize an engagement for a variety of clients. Don has analyzed financial data for insurance companies pursuing lawsuits, performed accounting tests to determine negligence for bonding questions and issued opinion audits on diverse types of businesses.

**KATHLEEN A. MONAHAN, CPA**

Kathleen Monahan is a partner in the firm's tax section. Ms. Monahan has over thirty years of experience with both national and local accounting firms. She is involved in all aspects of tax practice including estate and gift tax planning, IRS representation and business tax consultation. Ms. Monahan has a Masters in Professional Accounting with a concentration in taxation from the University of Texas. Past experience covers all phases of individual tax planning with special emphasis in the Trust and Estate areas. Tax areas indicative of Kathleen's expertise include family limited partnership planning, trust planning and all aspects of estate and gift plans including estate return preparation and special use valuation for estate tax purposes. Business planning includes Sub S corporation year-end planning strategies and Franchise tax reduction. Partnership tax accounting and partnership capital account analysis accounting have been areas of continuing interest and dedication.



**MIKESKA MONAHAN & PECKHAM, LLP**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
**PROFILE OF THE FIRM - CONT'D**

**SUSAN Z. PECKHAM, CPA**

Susan Peckham is one of two partners in charge of tax services. Ms. Peckham has thirty-one years of experience including five years with Coopers and Lybrand and four years with KMG/Main Hurdman and its predecessor. During those years Ms. Peckham has dealt with complicated tax issues concerning corporations and individuals. Her tax expertise has assisted clients in solving corporate tax problems through mergers, reorganizations, liquidations, and Subchapter S planning. Ms. Peckham has a Masters in Professional Accounting with a concentration in taxation, and a Bachelors degree with Highest Honors from the University of Texas.

In addition to the firm principals, **MIKESKA, MONAHAN & PECKHAM, LLP**, employs associates who are either Certified Public Accountants or who are working on becoming certified.

All CPAs of the firm are members of the American Institute of Certified Public Accountants and the Texas Society of Certified Public Accountants.

A representative sample of current and former clients follows:

**Corporate Clients**

Brumley Akin Seeker Phillips Uribe  
Common Insurance Corporation  
Horseshoe Bay Corp.  
Lake TBI Corporation  
Masonwood Development  
TSO  
Texas Legislative Service  
Twin Oaks Assoc.

**Industry**

Medical  
Insurance  
Real Estate Sales  
Real Estate Developer  
Real Estate Developer  
Optical Retail  
Small Business  
Real Estate Management

**Not-For-Profit & Governmental Entities**

Advocacy, Inc.\*  
AIDS Services of Austin, Inc.\*  
Bat Conservation International, Inc.\*  
Capital Area Food Bank\*  
Intercontinental Terminal's Employee Benefit Plan  
Michael Angelo's Gourmet Foods, Inc. 401(k) Plan  
National Country Market Sales Cooperative  
Nevada Disability Advocacy & Law Center\*  
Southern Nevada Center for Independent Living\*  
Texas Bar Foundation  
Texas Equal Access to Justice Foundation  
Texas Rural Water Association\*  
United Way/Capital Area

**Professionals**

Numerous physicians, attorneys, and investors.

\* Requires an OMB A-133 audit



TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY



THE INDIVIDUAL OR FIRM OFFICE IDENTIFIED BELOW IS LICENSED TO PRACTICE  
PUBLIC ACCOUNTANCY IN TEXAS.

IDENTIFICATION NO.	EXPIRES ON	FIRM NO.
826849-001 (903769)	9/30/2005	07029704

NIKESKA MORGAN & PICKHAM LLP  
OFFICE  
100 CONGRESS AVE STE 500  
AUSTIN TX 78701



Carneiro, Churney & Co., L.C.

Robert M. McAdams, CPA  
Robert L. Lewis, CPA  
Franklin W. Purk, CPA  
Paul Roth-Railey, CPA

CERTIFIED PUBLIC ACCOUNTANTS

J. Lowell Goode, CPA  
Julia C. Norton, CPA  
Sandra J. Geppert, CPA  
Allen E. Robertson, Jr., CPA

August 2, 2006

To the Partners  
Mikeska, McNahar & Peckham, L.L.P.

We have reviewed the system of quality control for the accounting and auditing practice of Mikeska, McNahar & Peckham, L.L.P. (the firm) in effect for the year ended April 30, 2006. A system of quality control encompasses the firm's organizational structure, the policies adopted and procedures established to provide it with reasonable assurance of conforming with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of CPAs (AICPA). The firm is responsible for designing a system of quality control and complying with it to provide the firm reasonable assurance of conforming with professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance with its system of quality control based on our review.

Our review was conducted in accordance with standards established by the Peer Review Board of the AICPA. During our review, we read required representations from the firm, interviewed firm personnel and obtained an understanding of the nature of the firm's accounting and auditing practice, and the design of the firm's system of quality control sufficient to assess the risks implicit in its practice. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with the firm's system of quality control. The engagements selected represented a reasonable cross-section of the firm's accounting and auditing practice with emphasis on higher-risk engagements. The engagements selected included among others, audits of Employee Benefit Plans and engagements performed under Government Auditing Standards. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with firm management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for the firm's accounting and auditing practice. In addition, we tested compliance with the firm's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the firm's policies and procedures on selected engagements. Our review was based on selected tests therefore it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it. There are inherent limitations in the effectiveness of any system of quality control and therefore noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.



To the Partners  
Mikeska, Monahan & Peckham, L.L.P.

- 2

August 2, 2006

In our opinion, the system of quality control for the accounting and auditing practice of Mikeska, Monahan & Peckham, L.L.P. in effect for the year ended April 30, 2006, has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA and was complied with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards.

*Carver, Chunney & Co., P.C.*



Peer Review Program for the  
American Institute of Certified Public Accountants  
Texas Society of Certified Public Accountants  
affiliated by Texas Society of CPAs



Texas Society  
of Certified  
Public Accountants

September 19, 2006

Donald C. Mikoska, CPA  
Mikoska, Monahan & Beckham, LLP  
Suite 990  
100 Congress  
Austin, TX 78701-2742

FINAL ACCEPTANCE LETTER

Dear Mr. Mikoska:

It is my pleasure to notify you that on September 18, 2006 the Texas Society of CPAs 2006-07 Peer Review Committee accepted the report on the most recent peer review of your firm. The due date for your next review is October 31, 2009. This is the date by which all review documents should be completed and submitted to the administering entity.

As you know, the reviewer's opinion was unmodified. The Committee asked me to convey its congratulations to the firm.

Sincerely,

Jerry L. Cross, CPA  
Director, Peer Review

cc: Robert M. McAdams, CPA

Firm Number: 10101690

Review Number: 241328





MARTINEZ, ROSARIO & COMPANY, LLP  
CERTIFIED PUBLIC ACCOUNTANTS

## **Texas State Affordable Housing Corporation**

**Proposal for Audit, Tax and Accounting Consulting Services for  
the Three Fiscal Years Ending August 31, 2007, 2008 and 2009**

**August 3, 2007**



# TEXAS STATE AFFORDABLE HOUSING CORPORATION

## PROPOSAL TO PROVIDE AUDIT, TAX AND ACCOUNTING CONSULTING SERVICES

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August 3, 2007

Texas State Affordable Housing Corporation  
1715 W. 35<sup>th</sup> Street  
Austin, Texas 78703

We appreciate the opportunity to submit this proposal, in response to your **Request for Proposals for Audit, Tax and Accounting Consulting Services** to serve the **Texas State Affordable Housing Corporation (Corporation)** as your independent accountants and business advisors. The Corporation would be a most valued client to us. In recognition of the significance of this opportunity, we are committing a highly qualified team of professionals to perform the audit. We are confident that our proposal, specifically our technical approach, demonstrates an understanding of local nonprofit and government issues. We believe the capabilities and diverse skills of our audit team will permit us to effectively provide the assistance necessary to ensure a successful audit.

*Martinez, Rosario & Company, LLP* is regionally recognized as one of the leaders in serving the government and non-profit sector. As a result of our extensive accounting, auditing and financial reporting experiences with federal, state and local governments and non-profit entities, the firm has considerable knowledge of the key issues confronting governmental and non-profit entities today.

By selecting us, you will work with dedicated professionals committed to meeting your expectations and needs. We will work closely with you to resolve critical business issues and offer creative and practical accounting and consulting advice.

This proposal is subject to *Martinez, Rosario & Company, LLP* and the Corporation agreeing to acceptable terms of a contract. The following individual is authorized to make representations for *Martinez, Rosario & Company, LLP*. He will serve as the primary contact point throughout the RTP process.

Mr. Ismael N. (Milo) Martinez, CPA  
*Martinez, Rosario & Company, LLP*  
115 E. Travis, Suite 1400  
San Antonio, Texas 78205  
(210) 277-1898 - Telephone  
(210) 277-1848 - Fax  
[milo@mrlopa.net](mailto:milo@mrlopa.net)

Very truly yours,

A handwritten signature in dark ink, appearing to read "Milo Martinez".

Ismael N. (Milo) Martinez, CPA  
Managing Partner



## Texas State Affordable Housing Corporation

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### *Understanding of Work to be Performed*

*Martinez, Rosario & Company, LLP* is to express an opinion on the fair presentation of the financial statements for the years ended August 31, 2007, 2008 and 2009 of the Texas State Affordable Housing Corporation. The audit will be performed in accordance with auditing standards generally accepted in the United States of America as set forth by the American Institute of Certified Public Accountants, *Government Auditing Standards (2007)* issued by the Comptroller General of the United States, 1996 Amendments to the Single Audit Act, the U. S. Office of Management and Budget (OMB) Circular A-133, and *Audits of States, Local Governments, and Nonprofit Organizations* and the *Consolidated Audit Guide for Audits of HUD Programs*.

We will also issue all single audit reports required by the American Institute of Certified Public Accountants, *Government Auditing Standards (2007)* issued by the Comptroller General of the United States, 1996 Amendments to the Single Audit Act, the U. S. Office of Management and Budget (OMB) Circular A 133, and *Audits of States, Local Governments, and Nonprofit Organizations*.

We will issue a series of reports as required by these standards including an "in-relation-to" report on the schedule of federal awards. In addition, we will also issue a report of conduct of audit under Statements on Auditing Standards #61, *Communication With Audit Committees*, along with a letter to management in regards to internal control.

Furthermore, to comply with the *Consolidated Audit Guide for Audits of HUD Programs*, we will submit to you a document titled HUD Audit Reports, will include the following supplementary information that will be subjected to the auditing procedures applied in our audit of the basic financial statements:

1. Computation of Adjusted HUD Net Worth
2. Schedule of HUD Insurance Requirements

The HUD Audit Reports document will contain an "in relation to" auditors' opinion on the above supplementary information as well as the following reports:

- A. Report of Independent Auditors' on Compliance with Specific Requirements Applicable to Major HUD Programs
- B. Report of Independent Auditors' on Compliance with Laws and Regulations in Accordance with Government Auditing Standards
- C. Report of Independent Auditors' on the Internal Control Structure Used in Administering HUD-Assisted Programs

Additionally, we will perform review for compliance with the Texas Public Fund Investment Act (Chapter 2256, Texas Government Code) using the guidelines provided by the Texas State Auditor's Office for the two (2) fiscal years ended August 31, 2007 and August 31, 2009.

*Martinez, Rosario & Company, LLP* will prepare the Corporation's annual Form 990 tax return for the three fiscal years ending August 31, 2007, 2008 and 2009. We will also be available to provide consultation and technical assistance on general accounting and tax issues.


All audit work will be completed in time to submit to the Comptroller of Public Accounts by November 20<sup>th</sup> of each year and the final report will be issued by December 7<sup>th</sup> each year.

2. Understanding of the Work  
*Martinez, Rosario & Company, LLP*



Texas State Affordable Housing Corporation

As requested, we are providing a copy of our firm's practice unit license.

TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY		
		
THE INDIVIDUAL OR FIRM OFFICE IDENTIFIED BELOW IS LICENSED TO PRACTICE PUBLIC ACCOUNTANCY IN TEXAS.		
IDENTIFICATION NO.	EXPIRES ON	FORM NO.
P05162-601 (402935)	9/31/2008	07030534
MARTINEZ, ROSARIO & COMPANY, LLP OFFICE 115 E TRAVIS STE 1400 SAN ANTONIO TX 78205		

S.A. License  
Martinez, Rosario & Company, LLP



## Texas State Affordable Housing Corporation

As evidence of our firm's experience in providing financial audit services to non-profit organizations and governmental entities, as well as audits in compliance with the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, we provide the following client listing.

### HUD Audits

- \* Hartland Mortgage Company, Ltd. Dba
- \* McMillin Mortgage
- \* Amherst Funding Group, L.P.
- \* Texas State Affordable Housing Corporation
- \* Mayfield Equities, Inc.

### Governmental

- \* Texas Agricultural Finance Authority
- \* Edgewood Independent School District
- \* City of Austin
- \* City of San Antonio
- \* Conalia Independent School District
- \* Texas Department of Housing and Community Affairs
- \* City of Austin Electrical Utility
- \* Capital Metropolitan Transportation Authority
- \* San Antonio Development Agency
- \* Austin Community College District
- \* Bexar County Hospital District
- \* San Antonio Independent School District
- \* Texas Department of Mental Health Mental Retardation
- \* Austin Travis County Mental Health Mental Retardation Center
- \* The Center for Health Care Services (The MHMR Center for Bexar County)
- \* Manor Independent School District
- \* Austin Independent School District
- \* San Antonio - Bexar County Metropolitan Planning Organization
- \* North American Development Bank
- \* City of Austin Water and Waste Water Utility
- \* Texas Lottery Commission
- \* Dallas Metrocare Services
- \* Texas Department of Insurance
- \* Austin Community College Foundation
- \* MHMR Services of Texoma
- \* Central Texas MHMR Center
- \* Heart of Texas Regional MHMR Center
- \* Texas Commission on Alcohol and Drug Abuse
- \* Texas Workers' Compensation Insurance Facility
- \* Texas Public Finance Authority

### Non-Profit

- \* Project QUEST, Inc.
- \* Extend-A-Care, Inc.
- \* Alamo Workforce Development, Inc.
- \* SER Jobs for Progress National, Inc.
- \* Presa Community Service Center
- \* New Milestones Foundation, Inc.
- \* Austin Community College District Foundation
- \* Texas Migrant Council, Inc.
- \* Texas Association of Chicanos in Higher Education
- \* Society of St. Vincent de Paul of the Archdiocese of San Antonio
- \* SER Jobs for Progress, Inc.
- \* El Centro del Barrio
- \* Centex ARC, Inc.
- \* Boys and Girls Clubs of San Antonio
- \* South Texas Rural Health Services, Inc.
- \* SERCO of Texas
- \* United Medical Centers
- \* Bexar County Hospital District Development Corporation

3.b. Firm Experience  
*Martinez, Rosario & Company, LLP*



## Texas State Affordable Housing Corporation

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Ismael N. (Milo) Martinez, CPA, will serve as Engagement Partner. Milo is the Managing Partner of *Martinez, Rosario & Company, LLP*. He is also the partner in charge of the audit department.

Robert P. Rosario, CPA - NY will be the Concurring Reviewer for the engagement. Bob is a Partner of *Martinez, Rosario & Company, LLP*.

Sandra K. Rodriguez will be the Engagement Manager. Sandra is a Manager in the audit department of *Martinez, Rosario & Company, LLP*.

Jackie Sartzellanes will be the Engagement Senior. Jackie is a Senior Accountant in the audit department of *Martinez, Rosario & Company, LLP*.



## **Texas State Affordable Housing Corporation**

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Our audit team is led by Ismael N. (Milo) Martinez, CPA, who will serve as Engagement Partner. Milo is the Managing Partner of Martinez, Rosario & Company, LLP, and he oversees the audit department. He is licensed as a CPA in the state of Texas and he has twenty-five years of experience. Milo is a graduate of the University of Texas at Austin. He will be responsible for planning and controlling the audit, reviewing audit results and conclusions and directing the preparation of the report to the Board and its audit committee. He will be available for discussion, consultation, and to advise you on the status of the engagement.

Robert F. Rossario, CPA will serve as Engagement Concurring Reviewer. Robert is a Partner at Martinez, Rosario & Company, LLP. He is licensed as a CPA in the state of New York. He will perform a preissuance review of all financial statements, schedules and auditors' reports. He will be available to the engagement team as a technical resource throughout our engagement.

Sandra K. Rodriguez will be the Audit Manager on this engagement. Sandra has over twenty-two years of experience in public accounting, governmental internal audit and accounting. She will assist in supervising the engagement, assignment of personnel, development of work plans, risk assessment, definition of sampling techniques and general review of all phases of the engagement. Sandra is a graduate of St. Mary's University.

Jackie Santellanos will be the Senior Accountant on this engagement. Jackie will work closely with Sandra, will directly supervise the staff accountant and perform a substantial portion of the audit work herself. Jackie will receive her Masters degree from the University of the Incarnate Word in December 2007.



## **Texas State Affordable Housing Corporation**

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We anticipate that your employees will prepare all cash, accounts receivable, or other confirmation we request and will locate any invoices and source documents selected by us for testing, as well as prepare all audit schedules requested.

In order to comply with SAS 112, we anticipate that your staff will prepare all financial statements and related note disclosures.



## **Texas State Affordable Housing Corporation**

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Our firm is a member of the Division of CPA Firms Private Companies Section of the American Institute of Certified Public Accountants. Our firm has been a member since 1991. Peer reviews are conducted every three years with annual self-inspections.

The firm completed its latest peer review in March, 2005. The review team was led by Michael Thornberry, CPA of Surlein Fischbein + Co. from Tulsa, Oklahoma. This was an on-site review.

Our peer review report was unqualified and a copy is enclosed. We did not receive a letter of comments, a high quality standard achieved only by 25% of the CPA firms in Texas.



## Texas State Affordable Housing Corporation

Martínez, Rosario & Co., LLP



To the Owners  
Martínez, Rosario & Co., LLP

We have reviewed the system of quality control for the accounting and auditing practice of Martínez, Rosario & Co., LLP (the firm) in effect for the year ended June 30, 2004. A system of quality control encompasses the firm's organizational structure, the policies adopted and procedures established to provide it with reasonable assurance of conforming with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of CPAs (AICPA). The firm is responsible for designing a system of quality control and complying with it to provide the firm reasonable assurance of conforming with professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance with its system of quality control based on our review.

Our review was conducted in accordance with standards established by the Peer Review Board of the AICPA. During our review, we read required representations from the firm, interviewed firm personnel and obtained an understanding of the nature of the firm's accounting and auditing practice, and the design of the firm's system of quality control sufficient to assess the risks implicit in its practice. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with the firm's system of quality control. The engagements selected represented a reasonable cross-section of the firm's accounting and auditing practice with emphasis on higher-risk engagements. The engagements selected included among others, audits of Employee Benefit Plans, and engagements performed under Government Auditing Standards. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with firm management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for the firm's accounting and auditing practice. In addition, we tested compliance with the firm's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the firm's policies and procedures on selected engagements. Our review was based on selected tests therefore it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it. There are inherent limitations in the effectiveness of any system of quality control and therefore noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies and procedures may deteriorate.



Texas State Affordable Housing Corporation

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To the Owners  
Martinez, Rosario & Co., LLP  
Page 2

In our opinion, the system of quality control for the accounting and auditing practice of Martinez, Rosario & Co., LLP in effect for the year ended June 30, 2004, has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA and was complied with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards.

*Sartin Fischer & Co.*

March 30, 2006



## Texas State Affordable Housing Corporation

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You requested at least three client references, preferably non-profit agencies. We are providing three non-profit agency references. Additionally, we are providing two references from for-profit companies for which we perform HUD audits.

### **Non-Profit Agencies**

El Centro del Barrio, Inc.  
Eusebio Gomez, Ph.D.  
Chief Executive Officer  
2300 W. Commerce, Suite 300  
San Antonio, Texas 78207  
(210) 922-0103

SER Jobs for Progress National, Inc.  
Ignacio Salazar  
President  
5215 N. O'Connor Blvd., Suite 2550  
Irving, Texas 75039  
(972) 506-7815

Texas Migrant Council  
Mary G. Capello, J.D.  
Chief Executive Officer  
5215 McPherson  
Laredo, Texas 78041  
(956) 722-5174

### **HUD Audits - For Profit Entities**

Ed Berlunga  
President  
Hartland Mortgage Company, Ltd. dba McMillin Mortgage Company  
1175 W. Bitters  
San Antonio, Texas 78216  
(210) 490-1798

Michael Sullivan, CPA  
Secretary of Amherst Funding Group, GP, Inc. (General Partner)  
Amherst Funding Group, L.P.  
7801 North Capital of Texas Highway, Suite 300  
Austin, Texas 78731  
(512) 795-9325

### **8. References**

*Martinez, Rosario & Company, LLP*



## Texas State Affordable Housing Corporation

### AUDIT TIMETABLE – FYE August 31, 2007

<u>Phase</u>	<u>Month in Audit Period</u>
Phase I - Planning	October
Phase II - Review Operations	October
Phase III - Testing	October/November
Phase IV - Audit Wrap-Up & Reporting	November
Delivery of Draft Financials and Footnotes	November 20, 2007
Delivery of Final Audit Reports	December 7, 2007

### AUDIT TIMETABLE – FYEs August 31, 2008 and 2009

<u>Phase</u>	<u>Month in Audit Period</u>
Phase I - Planning	July
Phase II - Review Operations	July
Phase III - Testing - Interim	July
Phase III - Testing - Year End	October/November
Phase IV - Audit Wrap-Up & Reporting	November
Delivery of Draft Financials and Footnotes	November - Date designated by Comptroller of Public Accounts
Delivery of Final Audit Reports	December – TSAHC Designated Date



## Texas State Affordable Housing Corporation

All of our employees are co-employed through Administaff of Texas, Inc., a major employee co-employment company. These employees are all permanent, full-time staff. Use of a co-employment agency allows us to provide employee benefits that are generally only provided by much larger firms. This benefit package, and enlarged training opportunities, assists us in attracting and keeping a higher caliber of employee than is usually encountered in a firm our size. We comply with all of Administaff's policies and procedures relative to affirmative action, as well as our own policies. **Our commitment can be seen in our staffing mix which consists 100% of minorities or women and our firm is 100% minority owned and controlled.**

Although neither Administaff nor Martinez, Rosario & Company, LLP has a formal written affirmative action policy, we have an unwritten policy that we practice and apply everyday. Furthermore, we are an equal opportunity employer, and do not discriminate on any basis. As evidence of our commitment to Affirmative Action, we present our firm employee profile by staff category, gender, race, and ethnic minority follows:

	Male		Female		Total	% Ethnic Minority and Female by Category
	White	Ethnic Minority	White	Ethnic Minority		
Partner	-	2	-	-	2	100%
Manager	-	1	-	1	2	100
Senior	-	1	-	1	2	100
Staff	-	-	-	2	2	100
Clerical	-	-	1	1	2	100
<b>Total</b>	<b>-</b>	<b>4</b>	<b>1</b>	<b>5</b>	<b>10</b>	<b>100%</b>

**Martinez, Rosario & Company, LLP** is 100% minority-owned, a small business enterprise and certified as a Historically Underutilized Business (HUB) by the General Services Commission of the State of Texas and as a Minority Business Enterprise (MBE) by the South Central Texas Regional Certification Agency.



There is nothing in this proposal that *Martinez, Rosario & Company, LLP* considers to be proprietary information.



**Texas State Affordable Housing Corporation**

<b>Personnel For Annual Audit</b>	<b>Proposed</b>	<b>Proposed</b>		
<b>Position/Title</b>	<b>hourly rate</b>	<b>Hours</b>		<b>Total</b>
Milo Martinez, CPA, Partner	\$200	50	\$	10,000
Robert F. Rosario, CPA - NY, Concurring Partner	\$200	10		2,000
Sandra K. Rodriguez, Manager	\$125	120		15,000
Jackie Santellanes, Senior	\$95	190		18,050
To be assigned, Staff	\$75	150		11,250
<b>Total</b>		<b>520</b>	<b>\$</b>	<b>56,300</b>

<b>Personnel For Annual Form 990</b>	<b>Proposed</b>	<b>Proposed</b>		
<b>Position/Title</b>	<b>hourly rate</b>	<b>Hours</b>		<b>Total</b>
Milo Martinez, CPA, Partner	\$200	3	\$	600
Robert F. Rosario, CPA - NY, Concurring Partner	\$200	1		200
Sandra K. Rodriguez, Manager	\$125	6		750
To be assigned, Staff	\$75	16		1,200
<b>Total</b>		<b>26</b>	<b>\$</b>	<b>2,750</b>

Mileage	700
Lodging	2,800
Meals	1,200
Printing	250
	<b>\$ 4,950</b>

<b>Personnel For Texas Public Fund Investment Act Compliance Review</b>	<b>Proposed</b>	<b>Proposed</b>		
<b>Position/Title</b>	<b>hourly rate</b>	<b>Hours</b>		<b>Total</b>
Milo Martinez, CPA, Partner	\$200	3	\$	600
Robert F. Rosario, CPA - NY, Concurring Partner	\$200	1		200
Sandra K. Rodriguez, Manager	\$125	6		750
To be assigned, Staff	\$75	10		750
<b>Total</b>		<b>20</b>	<b>\$</b>	<b>2,300</b>

<b>Position/Title</b>	<b>Rates for Non-recurring Work</b>	<b>Rates for Comfort Review and Bond Offering Services</b>
Partner	\$200	\$750
Principal	\$200	\$250
Senior Manager	\$150	\$200
Manager	\$125	\$150
Senior	\$95	\$120
In Charge	\$85	\$100
Staff	\$75	\$90

The above fees and rates are for FYE August 31, 2007.

Our fees and rates will increase approximately 3% for FYE August 31, 2008 and 2009, respectively.



## **TEXAS STATE AFFORDABLE HOUSING CORPORATION AUDIT COMMITTEE GUIDELINES**

These guidelines are intended to define the purposes, membership and responsibilities of the Audit Committee of the Texas State Affordable Housing Corporation (“the Corporation”).

### **I. PURPOSES**

The Audit Committee is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities. The Audit Committee’s primary duties and responsibilities are to:

1. Monitor the integrity of the Corporation’s financial reporting process and systems of internal controls regarding finance, accounting, legal and ethics compliance.
2. Monitor the independence and performance of the Corporation’s independent financial auditors who shall report directly to the Audit Committee.
3. Facilitate communication among the independent auditors, management, the CFO and the Board of Directors.
4. Monitor compliance by the Corporation and its directors, officers and employees with applicable law and Corporation’s code of ethics and conflict of interest policies.
5. Establish procedures for the receipt, retention and treatment of financial matters complaints and the confidential anonymous submission by employees regarding questionable accounting.
6. Report on its activities to the Board of Directors.

The Audit Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities and it has direct access to the independent auditors as well as anyone at the Corporation. The Audit Committee has the ability to retain, at the Corporation’s expense, special legal, accounting, or other consultants or experts it deems necessary in the performance of its duties. However, it is not the duty or responsibility of the Audit Committee or its members to conduct auditing or accounting review or procedures, and each member of the Audit Committee shall be entitled to rely on (i) the integrity of those persons and organizations within and outside the Corporation from which it receives information and (ii) the accuracy of the financial and other information provided to the Audit Committee by such persons or organizations.



## **II. COMPOSITON AND MEETINGS**

The Audit Committee shall be comprised of three members made up of two directors as determined by the Board of Directors and the Chief Financial Officer of the Corporation. The President of the Corporation will serve as an Ad Hoc member of the Committee. The two member board directors shall be free from any relationship that would interfere with the exercise of his or her independent judgment. All members of the Audit Committee shall have a basic understanding of finance and accounting and be able to read and understand fundamental financial statements, and at least one member of the Audit Committee shall have accounting or related financial management expertise.

Audit Committee members shall be appointed on recommendation by the full Board of Directors. If a Chair of the Audit Committee is not designated or present, the members of the Audit Committee may designate a Chair by majority vote of the Audit Committee.

Audit Committee members will be reimbursed for travel and other actual and reasonable expenses incurred in the conduct of official Audit Committee business. No member of the Audit Committee may accept any additional consulting, advisory or other compensatory fee from the Corporation or other organization.

The Audit Committee shall meet at least four times annually or more frequently if circumstances dictate.

## **III. RESPONSIBILITIES AND DUTIES**

To carry out its purposes, the Audit Committee shall have the following duties and responsibilities:

### **Review Procedures**

1. Review and assess the adequacy of these guidelines at least annually and submit any proposed changes to the Board of Directors for approval.
2. Review the audited financial statements with management, prior to distribution. Review should include discussion with management and independent auditors of significant issues regarding accounting and auditing principles, practices and judgments.
3. In consultation with the management, the CFO and independent auditors, consider the integrity of the company's financial reporting processes and controls. Discuss significant financial and non-financial risk exposures and the steps management has taken to monitor, control, and report such exposures. Review significant findings prepared by the independent auditors together with management's responses.



4. Consider and approve, if appropriate, major changes to the Corporation's accounting principles as suggested by the independent auditors, management or CFO and any items required to be communicated by the independent auditors in accordance with SAS 61.

### **Independent Auditors**

1. The independent auditors are ultimately accountable to the Audit Committee and the Board of Directors. The Audit Committee shall review the independence and performance of the auditors and annually recommend to the Board of Directors the appointment of the independent auditors or approve any discharge of auditors when circumstances warrant.
2. On an annual basis, the Audit Committee should review and discuss with the independent auditors all significant relationships they have with the Corporation that could impair the auditors' independence.
3. Prior to releasing the audit report, discuss the results of the audit with the independent auditors. Discuss certain matters required to be communicated to the Audit Committee in accordance with AICPA SAS 61.
4. Review with the independent auditor any management letter provided by the auditor and the Corporation's response to that letter.

While the Audit Committee has the responsibilities and powers set forth in these guidelines, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Corporation's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of management and the independent auditor. Nor is it the duty of the Audit Committee to conduct investigations, to resolve disagreements, if any, between management and the independent auditor or to assure compliance with laws and regulations.



## **Tab 8**

### **Presentation, Discussion and Possible Approval of Policies & Procedures related to Internal Accounting Controls.**

Discussion